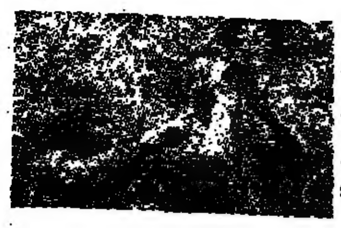


Bosnia
A threat to Europe's security
Page 14

Maastricht
Why Jutland's fishermen say No
Page 2

Aid to Russia
The G7 takes a gamble
Page 15

N American Trade
Some winners, some losers
Survey, Pages 27 - 30

FINANCIAL TIMES

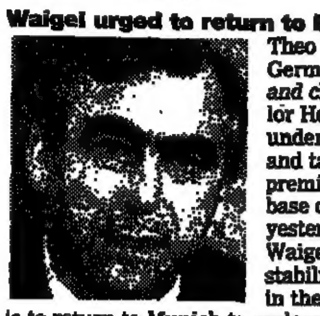
Europe's Business Newspaper — WEDNESDAY MAY 12 1993 — D8523A

Fiat draws up code of ethics for business practice

Fiat, Italy's biggest private company, tried to distance itself from the country's growing political corruption scandal by issuing a new "code of business ethics". The move is expected to be followed by other big Italian companies, including the state-owned Eni energy and chemicals group, which has also been implicated in allegations of corruption and kickbacks on public sector contracts. Page 16; Editorial Comment, Page 15; *Ex-Communists accused over Italian kickbacks*, Page 2

Spotlight on jobs in Brussels: The resignation of the European Commission's director-general for social affairs, Sigismundo Crespo, has cast an embarrassing spotlight on how the EC fills its senior jobs. Page 16

Waigel urged to return to Bavaria:



Theo Waigel (left), German finance minister *and close ally of Chancellor* Helmut Kohl, is under pressure to quit and take over as state premier in his home base of Bavaria. Reports yesterday said Mr Waigel, a symbol of stability and key figure in the ruling coalition, is to return to Munich to replace Max Streibl in the Christian *Social Union*. Page 16

Japan accuses on trade: Japan has accused its leading trading partners of unfair trade practices. Page 7

US farmers' Gatt warning: The American Farm Bureau, the most consistent advocate of farm trade reform within the current round of General Agreement on Tariffs and Trade talks, warned that the US agriculture lobby may withdraw support if US negotiators accept EC offers on market access for commodities. Page 7

Israeli government hangs on: The crisis threatening Israel's ruling coalition was suspended after Aryeh Deri, interior minister and leader of the ultra-religious Shas party, agreed to rescind his resignation from the government. Page 4

Japan pledge on Cambodia: *Kiichi Miyazawa*, Japan's prime minister, is expected today to deliver a strong reaffirmation of the country's commitment to the United Nations *peacekeeping operation in Cambodia, as opposition demands* for an immediate pull-out intensified. Page 6

Tajikistan arms find: Security forces in Tajikistan, central Asia, seized 10 caches of firearms and missiles which they believe had been prepared for a major rebel attack. Afghans fuel war on ex-Soviet territory, Page 5

Fugitive author backed by UK PM: Indian-born British author Salman Rushdie said he received strong support from prime minister John Major for his campaign to lift Iran's four-year-old death order against him, adding that the British government had new action in mind.

Fondiaria, Italian insurance group controlled jointly by Ferruzzi and the Gaic holding company, sold its 21 per cent stake in Aachener und Münchener Beteiligungs (AMB) to a group of German institutions for DM985m ($616m). Page 17

Reed Elsevier, international publishing and information group, has signed a letter-of-intent to purchase Official Airline Guides in a deal worth $425m. The move came as the company, owned jointly by Reed International and Elsevier, reached an agreement to acquire at least a controlling interest in Editions Techniques, French legal publishers. Page 17; Lex, Page 16

Ericsson, Swedish telecommunications group, swung back into profit in the first quarter, helped by strong demand and cost cutting. Pre-tax profit was SKr428m ($56m).

Thai factory fire kills 200: More than 200 workers, most of them women, were killed by a fire in a toy factory on the outskirts of Bangkok *on Monday night in one of the* world's worst industrial accidents. Page 6

Hong Kong agreement: British and Chinese *officials* agreed to the release of 127.8 hectares of land for sale in the coming 1993-94 financial year. Page 5

Shoppers tricked by fake ATM: Shoppers in Connecticut, US, were tricked into revealing secret information about their bank acounts to thieves, who had set up a fake automatic teller *machine* in a shopping mall.

■ STOCK MARKET INDICES		
FT-SE 100:	2836.1	(+6.3)
Yield	3.99	
FT-SE Eurotrack 100	1140.44	(-2.30)
FT-A All-Share	1397.44	(+0.2%)
Nikkei	20,940.37	(-114.34)
New York lunchtime		
Dow Jones Ind Ave	3461.03	(+7.75)
S&P Composite	442.91	(+0.11)

■ US LUNCHTIME RATES	
Federal Funds:	$2\frac{15}{16}$%
3-mo Treas Bills: Yld	2.941%
Long Bond	$103\frac{15}{32}$
Yield	6.811%

■ LONDON MONEY		
3-mo Interbank	6%	($5\frac{15}{16}$%)
Liffe long gilt future:	Jun $103\frac{25}{32}$	(Jun $102\frac{7}{8}$)

■ NORTH SEA OIL (Argus)		
Brent 15-day June	$19.105	(19.19)

■ Gold		
New York Comex June	$357.3	(357.2)
London	$358.45	(356.75)

■ STERLING		
New York lunchtime:		
$	1.542	
London:		
$	1.542	(1.535)
DM	2.48	(2.4625)
FFr	8.3625	(8.2925)
SFr	2.25	(2.2325)
Y	171.5	(171.55)
£ Index	80.4	(79.9)

■ DOLLAR		
New York lunchtime:		
DM	1.60885	
FFr	5.4255	
SFr	1.459	
Y	111.225	
London:		
DM	1.6085	(1.6045)
FFr	5.4225	(5.4025)
SFr	1.4585	(1.4545)
Y	111.15	(111.75)
$ Index	84.2	(same)
Tokyo close Y 111.35		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45		
Croatia	SLT220	India	Rs40	Nigeria	Naira45	Slovenia	HRD5700		
Cyprus	C£1.00	Israel	Shk8.90	Norway	NKr16.00	Spain	Pta200		
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20		
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00		
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250		
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000		
						UAE	Dh11.00		

Petersen denies Europe sought delay on action until after referendum

US-EC relations sour on Bosnia

By Robert Mauthner in London

RELATIONS between the US and the European Community took a *sharp turn for the worse* yesterday after mutual recriminations about the attempts to co-ordinate western policy on Bosnia.

The EC presidency categorically denied Washington's claim that its European allies were pressing it to wait for a Bosnian Serb referendum this weekend before taking a decision on possible joint military action against the Bosnian Serbs.

Mr Niels Halveg Petersen, foreign minister of Denmark which currently holds the EC presidency, *said the US statement* on the subject had "no foundation whatsoever".

"The question of tying anything in the EC position to the referendum is totally absurd," Mr Petersen *angrily told a news conference* in Brussels.

He was referring to a statement by White House spokeswoman *Ms Dee Dee Myers* on Monday that to preserve a common front with the EC, Washington was putting off any decision on further action until after the Bosnian Serb referendum. This has been called to allow the Bosnian Serb people to make a final decision on an international peace plan, rejected by their self-styled parliament a week ago.

Meanwhile, Yugoslav, Serbian and Montenegrin leaders called on Bosnian Serbs yesterday to attend a joint parliamentary session *in Belgrade on Friday* to decide whether to accept the international peace plan for Bosnia. The joint parliamentary session should replace the weekend's referendum, the Yugoslav news agency Tanjug said.

PAGE 3
■ EC pushes 'safe areas' option
■ Croats in Bosnian onslaught
PAGE 14
■ Twin track to Bosnia peace

President Slobodan Milosevic of Serbia who, since the summit of the warring parties in Athens at the beginning of this month, has been actively pressing the Bosnian Serbs to accept the peace plan, said it concerned Yugoslavia, Serbia, Montenegro and the Serb-populated region of Krajina in Croatia, as much as the Bosnian Serbs.

This meant that a decision on the plan, drawn up by Mr Cyrus Vance and Lord Owen, the United Nations and EC mediators, should not be taken by the Bosnian Serbs in isolation.

Mr Petersen said the EC foreign ministers, at their meeting in Brussels on Monday, had expressed the same view as the US on the referendum, namely that the move to call it was no more than "a cynical ploy", aimed at buying more time for the Bosnian Serbs.

Mr Petersen said the question of the referendum had not even come up when he discussed the Bosnian situation by telephone with Mr Warren Christopher, the *US Secretary of State, on Monday*, nor in discussions with Mr Andrei Kozyrev, the Russian foreign minister, on Tuesday.

However, President Bill Clinton yesterday continued to defend his original proposal to lift the embargo on arms deliveries to Bosnian Moslems, an idea that several European governments, particularly Britain and France, have strongly opposed for fear that it would merely prolong the Bosnian conflict.

Mr Clinton complained, in a meeting with students at a Chicago school, that the UN arms embargo imposed on the former Yugoslavia had had the wrong effect. The practical impact was "to give the entire weaponry of the Yugoslav army to the Bosnian Serbs and deprive any kind of equal weaponry to the people *fighting against them*," he said.

A campaign in the US criticising the European nations for their inaction in Bosnia has been gathering force. It is led mainly by the media and individual politicians, although Senator Joseph Biden, a member of the Foreign Relations Committee, yesterday added his voice to the critics.

Paris plan to end its control of central bank

By David Buchan and Alice Rawsthorn in Paris

THE FRENCH government *yesterday outlined its plan to* give the Bank of France independence, shedding a tradition of tight political control over monetary *policy in the interest of* anchoring inflation at a low level.

International experience has shown that "those countries which enjoy the greatest monetary stability are those which have entrusted the conduct of monetary policy to an independent central bank", Mr Edmond Alphandéry, the economy minister, said.

The draft statute which must be approved by parliament provides for the creation of a nine-member monetary policy committee within the Bank of France. It would be composed of the bank's governor, his two deputies and six outsiders, appointed by the government from a shortlist provided by other institutions for nine-year terms.

He hoped that the committee would not be stacked with the "Parisian monetary intelligentsia, *all out of the same mould*", but would represent a diversity of interests – even though the French central bank would not follow the federal model of Germany and the US.

Achieving autonomy from its own government would not necessarily make the Bank of France any less dependent on Bundesbank monetary decisions. But in *recent weeks France has not* always waited for Germany to cut rates before doing so itself.

The new centre-right government also plans to implement radical changes in French industrial policy by taking a tougher line with France's state-controlled companies. Mr Gérard Longuet, industry minister, said the state would abandon the old interventionist approach and would in future be more stringent about injecting extra capital into public sector companies and *less resistant to allowing international* investors to take stakes in

Continued on Page 16
France's 'Bundesbank', Page 2
Editorial Comment, Page 15

Russian president offers regional leaders a central role in adopting constitution

Yeltsin sacks two leading opponents of reform

By John Lloyd in Moscow

Dismissed: hardliners Georgy Khiza (left), a deputy prime minister, and Yuri Skokov, state security council secretary

MR Boris Yeltsin, the Russian president, yesterday sacked two hardline members of his government as he began clearing the *path to reform following his victory* in last month's referendum.

He dismissed Mr Yuri Skokov, secretary of the powerful state security council and Mr Georgy Khizha, deputy prime minister for the military-industrial complex – both avowed opponents of radical reform.

At the same time, Mr Yeltsin told a meeting of leaders from Russia's regions that they should form themselves into a constitutional assembly to adopt his draft constitution, by-passing the Russian parliament. *Mr Yeltsin* had earlier hinted at such a role for regional representatives, but this was the clearest statement of his intent to date.

He told the leaders, called to discuss his draft that "this gathering in future should be transformed into a Council of Federation which will subsequently become one of the chambers of the future parliament. That is why you, and not someone else, should work on the constitution and adopt it".

This suggests that Mr Yeltsin is prepared to see appointed representatives become a part of the upper house of the bicameral parliament foreshadowed in his draft – although the constitution says the Council of the Federation should be elected.

In choosing to use the regional leaders as a legitimising forum for the new constitution, Mr Yeltsin is turning to a group of officials who have mixed views about his economic and political course, *but who have shown over* the past year that their support can be secured in return for concessions, *especially in the sphere* of tax privileges and retention of export earnings.

However, this will add to the flow of power from the centre to the regions, often increasing bureaucratic delays and resulting in growing separatism in the autonomous republics. It also means that the long-delayed confrontation with parliament appears unavoidable in the near future.

Mr Ruslan Khasbulatov, speaker of the Russian parliament *and an outspoken opponent* of Mr Yeltsin's policies, is due to speak today in parliament on the president's draft constitution. He is expected to reject it as tantamount to the declaration of a presidential dictatorship.

Further changes in the cabinet and administration are forecast. Attention now focuses on the possibility of the return to the government of Mr Yegor Gaidar, the former acting prime minister.

Mr Skokov's replacement at the head of the Security Council – which deals with issues of foreign affairs, domestic economy and security – was not named. However, there was speculation *that Mr Sergei Stepashin*, chairman of the parliamentary defence and security committee, would be offered the post.

Much ado about lending, Page 15

Gencor to relinquish control of all non-mining interests

By Philip Gawith in Johannesburg

GENCOR, South Africa's second largest mining house, yesterday announced plans to unbundle its non-mining interests in a deal which will probably halve the group's market capitalisation to about R8bn from R16bn ($5bn) currently.

At the same time Gencor disclosed that it is involved in talks with Royal Dutch/Shell for the acquisition of its main metal mining businesses. Discussions are at an early stage, but if successful would see the creation of a world scale mining enterprise.

The effect of the unbundling, expected to be completed by August 31 1993, is that Gencor will relinquish control of its three industrial arms – paper and pulp company Sappi, consumer group Malbak and energy company *Engen* – as well its as investment arm Genbel. Gencor will emerge as purely a mining, metals and mineral beneficiation company, with interests, among others, in gold, platinum, coal, ferroalloys, stainless steel and aluminium.

Although Gencor said the move was motivated by the desire to unlock shareholder wealth – Gencor currently trades at a discount of about 19 per cent, or *R3.8bn, to net asset value – and* improve focus for operations and investors, Mr Brian Gilbertson, executive chairman, conceded there had been a political aspect to the deal. Unbundling is a policy much favoured by the African National Congress and Gencor will receive kudos for being a pioneer.

The announcement was favourably received in the investment community. Analysts, in general, favour unbundling, saying the South African economy is too concentrated. It will also bring some of South Africa's large and unwieldly conglomerates into line with international trends towards smaller, more focused operations.

Mr Derek Keys, finance minister, and chairman of Gencor when the unbundling issue was first raised nearly three years ago, also endorsed the deal. "Gencor has had an outstanding record as an entrepreneur and I welcome the announcement of the group's plan to unbundle in the belief that it will result in five entrepreneurs," he said.

The restructure will involve Gencor passing its shares in Sappi, Malhold, Genbel and *Engen through to its own shareholders*. Gencor Beherend, the controlling pyramid, which has nothing but a 54 per cent stake in *Gencor, will pass its shares in the* underlying companies to its shareholders (50 per cent Sanlam and 25 per cent Rembrandt, the tobacco group) and be *liquidated*.

Mr Marinus Daling, chief executive of Sankorp, the company that controls Sanlam's strategic investments, and the key driving force behind the unbundling, said yesterday it supported the unbundling "because focus is extremely important to us as investors. . . . The operations of Gencor are already focused but *until this transaction, its paper* had not been focused, and it is our most important investment."

Before the unbundling, Gencor plans to supplement existing cash holdings of about R1.5bn by raising a further R1.5bn by disposing *of group shares and portfolio investments*.

Editorial Comment, Page 15; Lex, Page 16; Overhaul of corporate South Africa, Page 17

CONTENTS

German recycling bill draws criticism

By Ariane Genillard in Bonn

GERMANY'S plan to force industrial producers to could their consumer in the face run into the criticism from of growing lobbyists and parlia- industrians.

The plan, drafted into a bill last month, is unlikely to receive parliamentary support in its present form, following a review this week by a parliamentary committee in charge of environmental affairs.

Opposition Social Democrats and the Free Democrats, the junior party in the coalition, say the bill allows too much state intervention in the economy and could be detrimental to the environment in the long-run.

"Price signals are more efficient than legal standards in driving enterprises to find efficient recycling methods for their products," Ms Birgit Homburger, a liberal MP said.

Their arguments are similar to those of the German industry federation which has been campaigning fiercely against the government plan. The federation has particularly been warning against the additional costs the law would bring on German enterprises.

"The prevention of waste must be left to individual enterprises which know about the complicated manufacturing processes. General legal instructions can instead lead to short-term and wrong solutions," the federation said in a statement on Monday.

The bill, the first of its kind in Europe, makes industrial manufacturers responsible for collecting and recycling the goods they sell. The Environment Ministry hopes the law will force industry to create goods which can be recycled and reduce the increasing amount of industrial waste it produces.

● Striking engineering workers said yesterday they would resume talks with employers tomorrow that could end a controversial nine-day-old strike in eastern Germany, Reuter adds.

But the powerful IG Metall union was preparing for mass demonstrations in the west today to support the strikers, who have been pressing employers to resolve a dispute over broken management wage promises.

How some EC central banks are more independent than others

	Belgium	Denmark	Germany	France	Italy	Netherlands	Spain	UK
Legal authority regime: 1. Exchange targets for 2. monetary growth	Government Central bank*	Government Central bank*	Government Central bank	Government Govt/Central bank	Government Govt/Central bank	Government Central bank*	Government Government	Government Government
Changing key interest rates	Central bank	Central bank	Central bank	Govt/Central bank	Central bank	Central bank	Central bank	Govt/Central bank
Appointment and term of governor	Crown on proposal of government, 5 years (renewable)	Crown on proposal of government, no fixed term	Fed. president on proposal of govt; normally 8 yrs with 2 year minimum	Council of ministers, no fixed term	Board of directors, with approval of government, Life	Nominated by govt /supervisory board, appointed by crown, 7 years (renewable)	Crown on proposal of government, 4 years (renewable)	Crown on proposal of prime minister, 5 years (renewable)
Proposed changes	Legislation prohibiting "monetary financing" and ensuring independence adopted in March	None	None	Proposals on independence approved by cabinet yesterday	Draft bill on abolishing advances to Treasury	Amendments to legislation required by Maastricht likely to be introduced soon	Draft law on independence dropped because of June 6 poll. Govt/opposition committed to independence	None. Changes will be needed if UK participates in stage 3 of Emu

* No monetary target set at present

France gets its Bundesbank, but a Gallic one

David Buchan explains how the new independent Bank of France will work

THE government of prime minister Edouard Balladur is planning to divest itself of a slice of national policy control by giving the Bank of France autonomy in "defining and carrying out" the country's monetary policy.

It was, in fact, in those terms that President François Mitterrand and France's constitutional court raised a last-minute hitch to the change in the central bank's statute. Could a French government, charged by the constitution with running national policy, cut adrift so important an institution as the Bank of France – created by Napoleon in 1800 and fully nationalised in 1936 – before the Maastricht treaty on economic and monetary union (Emu) required it to do?

A compromise was found at a cabinet meeting on Monday. Article 1, the most important of the 33-article draft law, states that the bank will operate monetary policy "with the goal of ensuring price stability" and "in the framework of the government's general economic policy".

The latter phrase is intended to protect the government from any constitutional charge of dereliction of duty, and is heavily qualified in the same article by the ban on the central bank "soliciting or accepting" outside instruction on the conduct of monetary policy.

Mr Edmond Alphandéry, the economy minister, said he personally did not like the phrase about the central bank operating "in the framework of" general government policy, and that he hoped it would be struck out when the EC moved to monetary union. If Maastricht was never fully ratified, France's plan for an autonomous central bank would still stand, he stressed, because that form of central banking had proved its anti-inflation worth around the world.

De-coupling the Bank of France plan from Maastricht in this way may also make it more palatable to a parliament which contains – chiefly in Mr Balladur's own RPR Gaullist party – more than 100 deputies who voted against the EC treaty in the referendum last September. Mr Balladur, however, still has an enormous majority and pro-EC remnants of the Socialist party to push the plan through.

Part of his appeal is to give the new institution distinctively Gallic colours. In contrast to the Bundesbank whose main responsibility is monetary policy, the Bank of France would, in general terms, have all its multifarious activities intact. Its 17,000 employees supervise commercial banks, compile corporate data, run the payments clearing system, even provide management advice to industry and conduct some private banking.

But inside the central bank would be created what Mr Alphandéry termed the "sanctuary" of a Monetary Policy Committee (MPC). It would have nine members – the bank governor and his two deputies (appointed for renewable six-year terms), plus six outsiders.

The latter would be appointed by the government from a list of 18 provided by various parliamentary and judicial institutions for staggered nine-year terms which could not be renewed or revoked (except for serious offence). No MPC member could have another job during his term, or anything but a public function for three years after retiring.

The draft contains no definition of price stability. That, said Mr Alphandéry, would be for the MPC to judge, just as the Bundesbank council does. It clearly states the government would still take overall exchange rate decisions concerning EMS parity changes or fluctuation bands, and that the MPC would decide day-to-day interventions in the foreign exchange markets.

But, as with Maastricht itself, this still leaves a grey zone. Who, for instance, would decide exactly where the franc should be within its EMS band?

The plan contains no mechanism to arbitrate between government and bank. To have included this, said Mr Alphandéry, would have appeared to pre-empt the consensus he hoped would emerge. However, the minister said he hoped the MPC would not be stacked with "the Parisian monetary intelligentsia" but have its six outsiders representing "the live forces of the economy".

Another ambiguity is in accountability. The draft statute's only stipulation is that the central bank governor continue to make his yearly report to the president. But Mr Alphandéry said he expected the governor to testify to parliament at least twice a year as his US counterpart did, and to develop an open press policy like the Bundesbank. "This will be a plus for our democracy," he said.

The draft plan also clarifies the existing division of labour between the Finance Ministry and the central bank on regulation of commercial banks – who themselves have won a minor victory. The Bank of France is no longer to seek to add to the 100,000 private accounts it holds for individuals (many of them central bank employees) and companies.

Ex-Communists accused over Italian kickbacks

By Haig Simonian in Milan

ITALIAN magistrates investigating kickbacks to political parties made two new arrests yesterday which further implicated the former Communist party in the widening corruption scandal.

The ex-communist Democratic Party of the Left (PDS) until recently has been relatively untouched by the corruption inquiries.

Magistrates arrested Mr Renato Pollini, former administrative secretary of the Communist party, and Mr Fausto Bartolini, ex-director of a building company associated with Italy's powerful co-operative movement, as part of inquiries into alleged kickbacks from the state railway system.

The arrests followed the issue of 14 cautionary warrants on Monday against businessmen and Transport Ministry officials. The accused are alleged to have connived in an arrangement to split kickbacks on railway orders between Italy's main political parties. Among those sought by the magistrates are Mr Franco Ferlin, an adviser at the time to Mr Carlo Bernini, a former transport minister.

The PDS is fighting to defend its image after a recent stream of leaks and arrests have prompted claims that its members participated in schemes involving kickbacks on public-sector contracts. The party has denied receiving kickbacks from companies dealing with the railways in the period up to 1988 when it had a member on the rail board.

Mr Pietro Tognoli, a Bergamo businessman, was arrested last week on allegations of having paid a 3 per cent kickback on a L200bn (£85m) contract for track sleepers. According to subsequent press leaks, 60 per cent of the L6bn kickback was shared between the Christian Democrats (25 per cent), Socialists (15 per cent) and PDS (20 per cent), while the remainder went to government officials. The PDS has denied any involvement.

Mr Pollini, 68, was a communist senator between 1983 and 1992 and former administrative secretary for the party. Mr Bartolini is a former director of Conaco Costurzioni, until recently the umbrella organisation for Italy's construction co-operatives.

● A committee of the chamber of deputies, the lower house of parliament, put off until next week hearings on lifting the parliamentary immunity of Mr Bettino Craxi, former Socialist party leader, and Mr Mr Claudio Martelli, a prominent ex-Socialist and former justice minister.

The hearings cover three requests from magistrates to investigate Mr Craxi and one in the case of Mr Martelli.

PM defends pace of Czech reforms

By Patrick Blum in Prague

CZECH economic reforms have progressed well, but Prague faces difficulties in its relations with western Europe, according to Mr Vaclav Klaus, the republic's prime minister.

"We are not facing an economic crisis, the worst is behind us," he said in an interview with Lidove Noviny, the Czech daily. He rejected forecasts of a sharp rise in unemployment and difficult times as economic reforms take hold.

Mr Klaus said some reforms had been delayed for practical reasons and not for lack of will to transform the economy. The recent introduction of a bankruptcy law had been delayed by at least six months because of the dissolution of the former Czechoslovakia. Housing reform had also been more difficult to implement than expected.

But the radical reform of property relations had been accomplished successfully and without social upheavals, Mr Klaus continued. "In all countries of central and eastern Europe [social instability] has been much worse."

He was more cautious about the Czech Republic's relations with the European Community. "I am a Euro-pessimist," Mr Klaus said, noting what he saw as the growing power of protectionist lobbies within the Community.

Prague wants to join the Community this decade, but officials have been increasingly irritated by EC ceilings on Czech and other east European exports to the Community. These limits affect steel, textiles and agricultural produce.

Poland to restart bank debt payments

By Christopher Bobinski in Warsaw

POLAND is to resume limited interest payments on its $12.1bn (£7.8bn) debt to western commercial banks on May 20, Mr Krzysztof Krowacki, its chief debt negotiator, said in Warsaw yesterday.

The resumption of monthly payments of $5m, or 10 per cent of the interest due, follows a round of talks with the banks in London last week. The annual interest payment of $60m is equivalent to the payments Poland made on a $1.1bn revolving credit dating from 1983 which it stopped servicing in January.

Poland, which ended interest payments on the bulk of its commercial debt in the autumn of 1989, is seeking a 50 per cent reduction of its debt burden in a deal comparable to its 1991 Paris Club agreement with western governments, under which it will have to resume full interest payments in 1995 of around $1.3bn a year on its reduced debt of $27bn.

Mr Krowacki said Poland is seeking a London Club agreement allowing it to buy back a third of the debt and issue 30-year par and discount bonds for the remainder.

New law to curb money laundering

A 1990 European Council convention aimed at combating money laundering will come into force on September 1 after its ratification this week by the Netherlands and Switzerland, writes Ian Rodger in Zürich. The treaty, signed by 16 European countries, has already been ratified by the UK and Germany. It is aimed at improving co-operation between police forces in tracing and seizing money laundered by drug dealers and other criminals. The existing European convention does not cover fully the confiscation of money earned by criminals.

Hugh Carnegy gathers views on quayside

Denmark's fishermen ready to sink treaty

Danish referendum

Knut-Erik Vestfart and his brother Per, like many of Europe's fishermen, are angry. Prices are at rock bottom for the cod, herring and other fish they bring in from the Baltic and North Sea to their home port of Skagen, at Denmark's northern tip. They want to catch more to compensate, but cannot because they would exceed EC quotas.

Little wonder then, as they winch their nets aboard their 20-tonne wooden-hulled vessel CK Vest and cast off for a night's fishing, that they have no hesitation in saying how they will vote in next Tuesday's Danish referendum on the Maastricht treaty.

"No!" exclaims Knut-Erik. "In the Baltic I've never seen so much big cod as this year but we can't catch them because of the Community rules. I'm sure most of fishermen will vote No."

The story is much the same all along the quayside in Skagen, which was closed for three weeks last month by a fishermen's protest strike. It is common also to find deeper resentments against the EC.

"I don't want Europe to become a new US," says Marianne Henrikson, who works in a dockside bar. "We should buy and sell to each other, but not have the same police or military. People fear the big countries, like Germany."

But this is not the whole story either. Just a step away from the boats, a less emotional response is evident that backs up forecasts that Danes will reverse last year's No vote.

Kurt Rye Poulsen is chairman of the Skagen Fishermen's Association, which represents 430 local boat owners and crew. Last year, he was forced to sell his 150-tonne trawler because he could no longer make money fishing. He says there are only 105 boats over five tonnes in Skagen against 200 a decade ago.

He is campaigning hard for larger quotas – he disbelieves official reports on low stocks – and a block on cheap imports from third countries.

Yet he and his association are recommending a Yes vote. "Denmark has very small waters, so most of the fish we catch is in EC waters. Most of our fish is sold to other EC countries. I see big problems if we don't stay in the EC."

This is echoed by fish auctioneer Bach Andersen. He says things have never been so bad in Skagen, where unemployment is 15 per cent. Cod prices are down 40 per cent since 1990; quotas have fallen by the same proportion.

But he, too, will vote yes. "Perhaps my heart says No, but my brain says Yes. We cannot sell our fish in other markets. The solution is not to get out of the system but to change the system."

The fishing industry makes up 80 per cent of the local economy in Skagen, the balance accounted for by tourism. Rune Larsson, the head of the local chamber of commerce says he will vote Yes. He expects the majority of those, like himself, in the fishing service industry to do likewise.

But he is far from confident about the outcome. He fears that what he sees as rational arguments may be eclipsed as polling day approaches. "The great problem is that the discussion tends to be on a very emotional level."

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 6000 Frankfurt am Main 1, Germany. Telephone 49 69 156 850, Fax 4969 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 6078 Neu-Isenburg 4 (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.
FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.
DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 Copenhagen K. Telephone 33 13 44 41. Fax 33 93 53 35.

Croat forces in Bosnian onslaught

By Laura Silber in Belgrade and Agencies

BOSNIAN Croat forces yesterday ignored United Nations warnings and their own ceasefire pledges, pressing on with their military campaign forcibly to forge a separate state at the expense of Bosnia's Moslems.

Fighting between Croats and Moslems intensified in south-western Bosnia's main city of Mostar, with some 60 rounds of heavy artillery falling on the area in a one-hour period and gunfire continuing throughout the day, the UN said.

Bosnian Croat forces are attempting to seize control of the west bank of the Neretva River, which runs through the city, and have captured the Bosnian army's local headquarters. Under the Bosnian Croat vision of a "Greater Croatia" the Neretva river would be its eastern boundary.

General Philippe Morillon, the UN peacekeeping force commander in Bosnia, was making for Mostar last night with the commanders-in-chief of the Croat militia and Moslem-led Bosnian government forces to try to rein in the combatants, the UN said.

UN officials said they were concerned about Moslem civilians reportedly cleared out of their homes in Mostar by Croat forces.

With international attention focused on the refusal by Bosnian Serb leaders to accept the Vance-Owen peace plan, Croats appear to be making their own land grab. Confident that they can push on with impunity, the Croats and the Serbs have nearly completed the carve-up of Bosnia.

Mr Mate Boban, the Bosnian Croat leader who takes instructions from Zagreb, was the first to endorse the Vance-Owen plan which aims to preserve a single Bosnian state, divided into 10 provinces.

The HVO, the military wing of the Croatian Democratic Union, the ally of Croatia's ruling party, eagerly approved the plan because it designates as "Croat" provinces next to Croatia. They appear convinced that over the next few years the provinces can be annexed to Croatian territory, even if the plan is implemented. The Croatian dinar is already in circulation and the Croat's checkerboard flag flies in western Hercegovina.

Mostar, badly damaged by Yugoslav army bombardments last spring, was designated the capital of the self-proclaimed Croat state of Herceg-Bosna.

The continued fighting has blocked off the main land route to central Bosnia, cutting off some 1.3m people dependent for survival on humanitarian relief convoys. The UN also reported serious shelling and heavy machine-gun fire in the dispute Jablanica-Konjic area, 50 km north-east of Mostar.

EC pushes 'safe areas' option

Lionel Barber reports on the US-European row over how to end Bosnia's civil war

RELATIONS between the European Community and the US may have reached a turning point as both sides struggle to bridge divisions over how to end the civil war in Bosnia.

These differences have largely been papered over, mainly because EC governments themselves have been torn over whether to support the use of force to halt the fighting.

Their call on Monday to the US – and Russia – to send troops to bolster the United Nations peace-keeping force in Bosnia represents a stiffening of opposition to US plans to arm the Bosnian Moslems. It challenges Pentagon military doctrine – that US ground forces must be under US control and have a clearly defined mission, preferably backed by overwhelming force. Above all, it contradicts the US belief that the Vance-Owen peace plan is dead.

British UN troops of the Cheshire regiment pulling out of the Bosnian town of Vitez yesterday at the end of a six-month tour of duty

To be sure, the allies are still hiding behind diplomatic code that "all options, including military, remain open". But this may obscure a more subtle shift in transatlantic relations. During the Cold War, the US took the anti-communist lead and a grateful Europe usually followed; now, a newly formed Anglo-French alliance has taken a lead of sorts and called on the Americans to fall into line, ironically with ground forces belonging to the old enemy, Russia.

France and the UK are the chief contributors to the UN peace-keeping force in Yugoslavia, with about 6,000 troops in place. Their great fear is that the US preference for arming the Bosnian Moslems and bombing Bosnian Serb targets would put their own forces in the line of fire, ending all pretence of UN neutrality and most likely leading to a humiliating withdrawal.

Mr Warren Christopher, US secretary of state, who toured European capitals last week, was left in no doubt that to pursue plans to lift the embargo would lead to a split in the alliance. According to a senior UK official, the British goal was to kill at all costs the plans to arm the Bosnian Moslems.

EC officials say the US secretary of state seemed more eager to hear about the European game-plan for ending the Bosnian conflict than pressing the US military version.

The view that Yugoslavia is a problem for the Europeans rather than the Americans – as was held by the Bush administration – also emerged during last week's talks between President Bill Clinton and a high-level EC delegation headed by Mr Poul Nyrup Rasmussen, Danish prime minister, and Mr Jacques Delors, European Commission president. "Some of the US (military) proposals seem to be window-dressing," said one Brussels official. So what is the European strategy?

First, EC leaders have placed their bets on President Slobodan Milosevic and his transformation from war criminal to champion of the Vance-Owen plan. They believe sanctions are responsible for the conversion, and they aim to capitalise on the split between Mr Milosevic and the recalcitrant Bosnian Serbs.

The next step is to test the Serbian president's pledge to seal the border, possibly using the former Yugoslav army policed by civilian EC observers. Mr Alain Juppé, French foreign minister, calls this the policy of "asphyxiation".

The second goal is to expand UN-led efforts to create "safe areas" for the Bosnian Moslems, consolidating the fragile ceasefire in six Moslem towns. The model is Srebrenica, where 150 Canadian troops negotiated passage into the town and persuaded Serbian artillery to hold fire. The UK's threat to bomb the Serbs if they attacked may have been a further incentive. French officials argue that securing "safe areas" would provide the building blocks for implementation of the Vance-Owen plan.

Hungarian right calls for border revision

By Nicholas Denton in Budapest

NATIONALIST members of Hungary's parliament have refused to renounce Hungarian territorial demands against Ukraine, indicating that border issues will continue to dog the country's foreign policy.

A treaty confirming the existing border between the neighbours has inspired resistance from a far-right minority within Hungary's governing conservative coalition. The bilateral agreement with the Ukraine was ratified yesterday by a large majority after a tortuous parliamentary passage.

Earlier in the week rebel MPs argued for the revision of borders with one calling for the "peaceful reunification" of the Carpathian basin, the extent of Hungary until 1920.

The government argued convincingly that the agreement, by enshrining rights for Ukraine's Hungarian minority, was worthwhile. Those openly seeking the return of territories are a small minority both among MPs and the Hungarian population as a whole.

Nevertheless, this week's acrimonious debate has drawn attention to the lingering bitterness that most Hungarians feel about the loss of two-thirds of the country's territory after the first world war – land in which more than 3m ethnic Hungarians still live.

Hungary's current political wrangling over the accord with Ukraine moreover foreshadows potentially graver disputes with other neighbours. Budapest, which has prided itself on model ties with Ukraine, starts from a far worse position in treaty talks with Romania, Slovakia and, eventually, Serbia.

Hungary and Romania, in which about 2m Hungarians live, are deadlocked on the same issue of border guarantees and have failed to conclude a basic agreement.

Budapest argues that it adheres to the multilateral Helsinki agreements which renounce the modification of frontiers by force and that this commitment is sufficient.

Germany questions its role as Zagreb's chief supporter

By Judy Dempsey in Berlin

CROATIA'S military support for the Bosnian Croats will come under sharp criticism when Mr Klaus Kinkel, Germany's foreign minister, makes his first visit to Zagreb on Friday.

During talks with President Franjo Tudjman and Mr Zdenko Skrabalo, the Croatian foreign minister, Mr Kinkel is expected to ask why Croatia continues militarily to back Mr Mate Boban, head of Bosnia's Croats, and the new offensive against Moslem forces in western Bosnia-Hercegovina.

The visit coincides with greater questioning in the German media about Bonn's decision to push through the European Community's recognition of Croatia's independence in January 1991. That policy, spearheaded by Mr Hans Dietrich Genscher, the former foreign minister, punctured any semblance of unity among EC states about how to deal with the unfolding crisis in the former Yugoslavia.

Mr Kinkel, however, has become more openly critical about Croatia's military involvement in Bosnia-Hercegovnia, and Croatia's attempts earlier this year to regain control of the Krajina area of south-western Croatia which, although a UN protectorate, is run by Serb nationalists seeking autonomy from Zagreb.

"Mr Kinkel will keep stressing the need for a negotiated settlement as a means of stopping the war. The longer the war continues, the more Germany will have to bear the brunt of the refugee problem," a Foreign Ministry official in Bonn said. But requests for German economic aid to reconstruct the Croatian economy are unlikely to be high on the agenda as long the area remains unstable.

More than 460,000 refugees from the former Yugoslavia have arrived in Germany in the past 18 months. At the same time, Germany has been at the forefront among EC countries in providing humanitarian aid to Croatia, which includes financing a hospital in Karlovac, south of Zagreb, and setting up a food and medical distribution network in the republic and extending into Bosnia. Bonn has already allocated direct humanitarian assistance totalling DM155m (£63m), in addition to DM196m towards EC aid for the region.

Rabin hangs on to coalition partner

By Judy Maltz in Jerusalem

THE CRISIS threatening the fragile coalition of Mr Yitzhak Rabin, Israeli prime minister, was temporarily suspended yesterday after Mr Aryeh Deri, interior minister and leader of the ultra-religious Shas party, agreed to rescind his resignation from the government.

Had the resignation gone into effect all five members of the Shas party would have pulled out of the coalition, leaving Mr Rabin with only a tiny majority in parliament.

While the break-up of the coalition would not have brought about the collapse of the government, it would have severely limited Mr Rabin's flexibility and denied him the broad base of support he seeks in parliament to push through tough decisions regarding the peace process.

The coalition crisis came to a head on Sunday when Mr Deri tended his resignation after Mrs Shulamit Aloni, the education minister and head of the left-wing Meretz party, refused to respond to his ultimatum that she leave her post.

The ultimatum was issued following a series of remarks made by Mrs Aloni, which Mr Deri and party colleagues said were offensive to the religious.

Mr Rabin yesterday proposed a temporary solution under which both interior minister and education minister will hand over their portfolios to the prime minister for the coming week, during which time a portfolio exchange among government ministers will be worked out to the satisfaction of Meretz and Shas.

If a permanent solution is not found within a week, Mr Rabin is likely to begin seeking new partners for the coalition among other parties.

Prime Minister Yitzhak Rabin shares a laugh yesterday with Education Minister Shulamit Aloni, who has agreed to accept a different cabinet post to appease leaders of the Shas coalition party

Confidence is casualty of Sharif's fall

Pakistan's businessmen are wary of future of reforms, writes **Farhan Bokhari**

BUSINESS confidence is emerging as one of the principle casualties of the recent downfall of Pakistan's reformist prime minister, Mr Nawaz Sharif.

"It's like the train has slowed down incredibly because the driver has left," was how one leading banker recently summed up the mood.

Pakistan's interim government, which has promised to hold national elections on July 14, denies that newspaper reports of large-scale withdrawals from foreign exchange bank accounts in the country reflect a nervousness among savers.

Signs of fatigue continue to hamper stock prices on the Karachi Stock Exchange, the country's leading stock market. While the market has recovered its level before Mr Sharif's dismissal, businessmen do not see this as a sign of any larger recovery of confidence.

The uncertainty centres on the future of economic policies and the outcome of political developments. A programme of economic reforms was at the heart of Mr Sharif's agenda whose 29-month-long government was sacked on April 18 by Mr Ghulam Ishaq Khan, the Pakistan president, for alleged corruption.

Mr Farooq Leghari, the new finance minister, has said all economic reforms will remain intact and has promised to press ahead with liberalisation policies. Many businessmen accept that Mr Sharif's reforms will not be reversed, because that would further damage the economy. But there are fears of a slowing down in the pace of future reforms.

Businessmen also point to macro-economic problems and political uncertainty as well as statements from the new government that the cases of factories privatised under Mr Sharif will be reviewed to consider allegations of corruption.

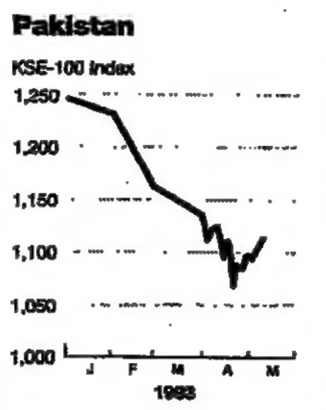
Mr Arif Habib, president of the KSE, said: "Whenever a government changes, the investors have apprehensions about future policies." He said the short-term nature of the government which replaced Mr Sharif did not help to ensure continuity in policies. "Uncertainty will prevail till after the elections," he said.

Mr Tahiq Khaliq, president of Karachi's chamber of commerce and industry, said: "New commitments [from businesses] have slowed down because of uncertainty." He expected few changes to take place until investors saw an elected government come to office.

Last week Daewoo, the South Korean conglomerate, said it was holding back on plans to invest up to $400m (£259.7m) in an industrial complex in Karachi until after the elections.

On the economic front, an on-going recession in the textile sector plus a growing budget deficit has also added to the fears. Textile stocks make up roughly a third of the 643 companies registered on the KSE. Projections of low profitability, especially in the spinning sector, have pushed down share prices, leading stock brokers said.

The interim government has announced a relief package for the textile sector, with concessions on some duties, but it is too early to say how much of a boost this will provide. The KSE index rose nearly 10 points yesterday as a result, brokers said.



The budgetary deficit for the fiscal year ending in June is expected to exceed Rs100bn (£2.43bn) compared with a target of Rs65bn. Mr Leghari recently described the deficit as "problem number one" and appealed to businessmen to help resolve the country's economic problems.

His task of re-establishing confidence has become more difficult with signs of conflict between key members of the interim government over the future of the country's four provincial assemblies.

It has raised fears that Ms Benazir Bhutto's opposition People's Democratic Alliance may pull its ministers out of the cabinet.

Mr Mian Habibullah, president of the Federation of Pakistani Chambers of Commerce and Industry, said he opposed any review of the previous government's privatisation efforts, adding that "people [businesses] invested in good faith".

Other businessmen said such a review would only increase investors' fears and could make it difficult for any future government to privatise the country's deficit-ridden public sector industries.

Many other businessmen are convinced that if the new government does not move quickly to establish fresh confidence through fiscal incentives and further commitments to continuity of policies, signs of fatigue may spread.

See World Stock Markets

Nigeria in new bid to agree debt relief deal

By Paul Adams in Abuja

MR ERNEST Shonekan, head of Nigeria's Transitional Council, will try to revive the quest for official debt relief when he arrives in Paris for informal talks with the French government and the Paris Club tomorrow.

His attempt to agree a medium-term economic strategy with the International Monetary Fund before he leaves office following elections in August is threatened by a deep split over the handling of the exchange rate between the Central Bank of Nigeria and Mr Oladele Olashore, finance minister.

The latest round of talks with an IMF and World Bank team ended in stalemate earlier this month, when Mr Olashore offered no positive action to float the naira or remove the domestic subsidy on petroleum products, both pre-conditions of an Enhanced Structural Adjustment Facility.

Although exchange rate policy is the responsibility of Mr Abdulkadir Ahmed, governor of the central bank, Mr Olashore has insisted on the need to control the parallel market, where the naira is worth about 70 per cent less than the official rate of N21.99 to the dollar.

The IMF is also dissatisfied by the Nigerian delegation's fiscal stance for the first quarter of 1993, according to those close to the talks. Nigeria has reported revenue of about N31bn (£940m) to the end of March, about N6bn below budget projection, in spite of higher than forecast oil prices and production levels. The Fund estimates that revenue was around N45bn for the period and wants to see full disclosure of oil proceeds by the state-owned Nigerian National Petroleum Corporation.

The probable source of the discrepancy is the oil revenue which goes directly into "dedication accounts" to pay for large infrastructure projects and the military campaign in Liberia. The Fund has asked for a breakdown of expenditure and a review of existing commitments, especially projects which contribute little to productivity or could be taken over by the private sector.

Mr Shonekan has tried to bring the dedication accounts into the overall budget through the fiscal co-ordination committee, which he chairs. He has also set up a budget monitoring committee composed of experts outside government to review fiscal performance and recommend changes in budget allocation.

The latest round of talks with an IMF and World Bank team ended in stalemate earlier this month

The budget committee is due to disclose its first report on Tuesday

The IMF is also looking for more action by the government to mop up excess liquidity and suspension of additional borrowing.

Government borrowing has been the main cause of inflation, which is more than 60 per cent a year, and has reduced the supply of foreign exchange to the private sector.

During the first two months of 1993 the government has slowed the growth of broad money supply, which reached 56 per cent in 1992, and aggregate credit fell 6.5 per cent during the same period as a result of firm controls on spending.

Mr Shonekan will be accompanied to Paris by Mr Ahmed but not by Mr Olashore, who is attending the African Development Bank's annual meeting. Mr Shonekan's team is running out of time if it is to achieve its goal of setting out a shadow IMF programme which the incoming civilian regime can follow when it takes over on August 27.

S African murder plot claim

THE AFRICAN National Congress said yesterday that white right-wingers were plotting to assassinate its leaders and derail democracy talks aimed at ending white minority rule in South Africa, Reuter reports from Johannesburg.

It said one of the conspirators had confessed to police last week he had been involved in a plot to kill Mr Joe Slovo, Communist party chairman, who is also a top white figure in the ANC.

The movement accused the police of not informing Mr Slovo even though they knew of the plot. Police earlier said they believed there had been a conspiracy to kill Mr Chris Hani, Mr Slovo's Communist party colleague, who was assassinated on April 10.

Yemen's ruling parties to merge

The two parties that ruled North and South Yemen until the country was reunited three years ago have agreed to merge into a single political party that would have an absolute majority in Yemen's newly elected parliament, Reuter reports from Sanaa.

The accord was signed by President Ali Abdullah Saleh, leader of the General People's Congress, and Vice President Ali Salem al-Baidh, who heads the formerly Marxist Yemen Socialist party. Together they could muster at least 164 seats of the 301 in parliament.

Sudan-Egypt border row flares

Sudan said yesterday it was mobilising to face a border dispute with Egypt which threatened regional security, Reuter reports from Cairo.

Sudanese radio, monitored by the BBC, quoted Mr Ghazi Salah al-Din, Sudanese minister of state at the presidency. "He reviewed the latest developments in the Halaib issue and said Sudan would be taking mobilisation measures in this regard," the radio said.

Amnesty in rights call for indigenes

INDIGENOUS people suffer grave human rights abuses including massacre and torture in more than 70 countries, Amnesty International said yesterday, Reuter reports.

"They have been massacred and terrorised, forced from their ancestral lands, caught up in bitter civil conflicts, and left without redress for the abuses they suffer," the London-based human rights organisation said.

The United Nations has designated this year as International Year of the World's Indigenous People, and will hold a UN conference on human rights in Vienna in June.

But for the 300m indigenes from Vietnam to the US threatened by rights abuses, this may *not be enough, the* Amnesty report said.

"Unless the international community acts urgently there is a danger the UN's International Year will. . . pass without significant progress towards protecting indigenous people," it said.

These people are often caught up in the crossfire between government troops and armed opposition groups, the group said.

In Peru, indigenous people have suffered torture and killing on a massive scale. Security forces killed villagers from several small communities in September 1990 because they refused to join civil defence patrols.

"Cases like this, where those guilty of killing, abducting and *torturing indigenous* peoples are shielded from justice, are common in many countries around the world," Amnesty said.

Human rights abuses in Bangladesh, India and Sudan were also cited in the report. In Brazil, an Indian leader was shot dead last December because he opposed logging operations inside indigenous areas. His killer was identified but not arrested.

Last April scores of tribal villagers in Bangladesh were reportedly shot dead by armed civilians and paramilitaries who had set fire to their *homes. Babies were snatched* from their mothers' arms and thrown into the flames, Amnesty said.

Indigenous people were tortured or killed by hired gunmen for their lands and this was often done with the tacit support of the authorities, the report said.

But it was not only third world countries which were criticised in the report. Aborigines in Australia were arrested at a rate 29 times higher than that of other Australians, and reports of police harassment were widespread.

Afghans fuel war on ex-Soviet territory

Tajikistan's Islamic rebels find ready allies to take on former communists, writes **Steve LeVine**

FOLLOWING a month of combat training, Ismatullah was posted as a guard outside a new office in the Afghan city of Taloqan – the headquarters of the Islamic Renaissance party of Tajikistan. However, he is unlikely to be there for long.

He and hundreds of other Tajiks, assisted by Afghan leaders, plan to return to their native country, 50 miles north, to try to depose the former Soviet government. "When the snow melts, in about a month, we will go back to Tajikistan and fight," Ismatullah said.

A comrade named Manon agreed: "People think communism has been destroyed. But they are being stupid. It is still alive in central Asia. But if we are victorious, it will die."

Until a year ago, when Afghanistan's government fell in an Islamic revolution, Taloqan was the guerrilla headquarters of Mr Ahmad Shah Massoud, known as the "Lion of the Panjshir". Since then, however, Mr Massoud has become the Afghan defence minister, and has opened his capital to like-minded friends in ex-Soviet Tajikistan. There, the Tajiks receive uniforms, weapons and training, along with encouragement to emulate the successful Afghan revolt. "To stop the bloodshed and make the region stable, the whole world should help us remove these bandits from power," said the IRP leader, Mr Saeed Abdullah Noori, 45, a soft-spoken Islamic scholar.

"We are asking the United States to pressure the government to step down and allow the people to decide their fate through elections." Through their backing for the rebels in the year-old Tajik civil war, the Afghans have broadened the conflict, attracting foreign military backing to both sides. Fearing the Islamic-led rebels, Russia and Uzbekistan have given armour and MiG fighter aircraft to the Tajik government in Dushanbe.

Thousands of Russian and troops from neighbouring Uzbekistan are also massed on Tajikistan's southern border, the Amu Darya river, to block the Afghan-based rebels from returning home to fight.

Hostility toward the Uzbeks is already apparent among the 60,000-strong Tajik refugee population in Afghanistan, forced from their country as suspected opposition supporters. Tajikistan and Uzbekistan share large populations of each other's ethnic groups, and long-feared violence between them could flare at any time.

A Tajik named Abdul Kahor, for one, cannot forget how his village of Shartus was attacked. "Their tanks and helicopters pushed all of Shartus towards the border. Uzbeks *from Shartus helped. Many of* us drowned in the river," he said. "Now we are thinking of revenge."

The Tajik republic of 5m people has been racked by clan warfare since the Soviet Union dissolved in 1991 and the republic gained its independence. The fighting has pitted regional clans associated with democratic and Islamic forces such as the IRP against others connected with the former communist leadership.

The hardliners finally consolidated power in December, after thousands of Tajiks died and 350,000 were displaced, including those who fled to Afghanistan. Like all of Afghanistan's key figures, Mr Massoud insists he provides only humanitarian aid to the Tajiks. But IRP fighters in Taloqan said Mr Massoud's *Shura Nazar* (supervisory council), provided their two-acre compound, their military training and weapons.

The men's crisp, new fatigues are identical to those worn by Mr Massoud's men in the Afghan capital of Kabul. Mr Massoud has had little choice. He is himself an ethnic Tajik, and is not alone in supporting the rebels.

Aid also comes from the Arab-financed Afghan parties *Ittehad-i-Islami and Hezb-i-*Islami. The latter is run by Afghanistan's prime minister designate, Mr Gulbuddin Hekmatyar.

"We have already trained about 1,000 of them," Mr Mohammed Zaman, a Hezb-i-Islami leader, said. "If this is really an Islamic government, we should help our brothers. Most of the people who have been trained have already gone back to Tajikistan."

If the Russian and Uzbek support continues, the Tajik rebels will face a difficult time against superior forces.

Some 60,000 Tajik refugees have now fled to Afghanistan since the civil war began a year ago

FINANCIAL TIMES
Published in
LONDON ● PARIS ● FRANKFURT ● NEW YORK ● TOKYO
Head Office: The Financial Times Ltd, Number One, Southwark Bridge, London SE1 9HL. Telex: (Editorial) 922186, Telex: (Advertising) 885033. Telephone: 071-873 3000. Fax (Advertising) 071-873 3063.

INTERNATIONAL & BRITISH EDITORIAL, ADVERTISEMENT & CIRCULATION OFFICES

Amsterdam: *Editorial*, PO Box 1296, 1000 BG Amsterdam. Tel 6276796 Fax 6235691 *Advertising and Circulation* Herengracht 472, 1017 CA Amsterdam. Telex: 16527 Fax: 285591 Editorial Tel. (020)6276796 Advertising & Circulation Tel: (020) 6239430/6225665
Bangkok: Maneeya Centre Building, 10th Floor, 518/5 Ploenchit Road, Bangkok 10500. Tel: 255 3809. Fax 254 3808
Berlin: *Editorial* Kronenstrasse 73/74, O-1080 Berlin. Tel: 220 2483. Fax: 200 4665
Birmingham: *Editorial and Advertising* George House, George Road, Edgbaston, Birmingham B15 1PG. Fax: 021-455 0865. Tel: 021-454 0922.
Bonn: *Editorial* Haussalee 2-10, Pressehaus III/104, D-5300 Bonn. Telex 8869542. Tel: 0228-21 00 39. Fax 223869
Bristol: *Editorial, Advertising and Circulation* Merchants House, Wapping Road, Bristol BS1 4RW. Tel: 0272 292565. Fax 0272 225974.
Brussels: *Editorial, Advertising and Circulation* Rue Ducale 39 Hertogsstraat, B-1000 Brussels. *Editorial* Telex: 23283. Tel: 02-512 9037 *Advertising and Circulation* Telex: 64219 Tel: 02-513 2816.
Buenos Aires: *Editorial* Edificio Safico Piso 7, No. 74 Avenida Corrientes 456, Codigo 1366, Buenos Aires. Tel: 01 394 7898.
Cairo: *Editorial* Flat 41, 19 Gabalaya Street, Zamalek Cairo Tel: 341 6545/341 6549 Telex: 94169 Fax: 341 6548.
Copenhagen: Advertising and Circulation Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 93 53 35.
Dublin: *Editorial* 20 Upper Merrion Street, Dublin 2. Tel: 762 071. Fax 762 125.
Edinburgh: *Editorial and Advertising* 37 George Street, Edinburgh EH2 2HN. Telex: 72484. Tel: 031-220 1199. Fax: 031-220 1578.
Frankfurt: *Editorial, Advertising and Circulation* Nibelungenplatz 3, 6000 Frankfurt 1. Tel: 069-156850 *Editorial* Fax: 069-5964542 *Advertising* Fax: 069 59645421 *Circulation* Fax: 069 5964482
Geneva: *Editorial* Salle de Presse No1, Palais des Nations, Avenue de la Paix CH-1211 Geneva 10. Tel: (022) 734 0425. Telex: 27780. Fax: (022) 733 7062. *Advertising and Circulation* 15 rue du Cendrier. CH-1201 Geneva. Tel: (022) 7311604.
Hong Kong: *Editorial*, 17a Shun Ho Tower, 24-30 Ice House Street, Central Hong Kong. Tel: 845 3311 & 845 3312 Telex: 67940 FTHKG Fax: 868 4224. Advertising 17th Floor IceHouse Street, Central, Hong Kong. Tel: 868-2863/63 Fax: 537 1211.
Jerusalem: *Editorial* c/o Government Press Office, P.O. Box 63, Beit Agron, 37 Hillel Street, Jerusalem 94581. Tel: 25 53 66.
Johannesburg: *Editorial* 4th Floor, Royal St Mary's, 85 Eloff Street, Johannesburg 2001. Telex: 4-85053. Tel: 011 333-4423 and 011 23-3151. Fax 337 6811
Leeds: Advertising 4, Wharfe View, Wetherby West Yorkshire LS22 4HS. Tel: 0937-586880. Fax 0937 586881.
Madrid: *Editorial* 1-5 floor, Calle Recoletos, Madrid 28001. Tel 337 0825 or 337 0837. Fax: 337 3800. *Advertising and Circulation* Serrano 58, 28001 Madrid Tel: 577 09 09 Fax 577 66 13
Manchester: *Editorial, Advertising and Circulation* Alexandra Buildings, Queen Street, Manchester M2 5HT. Tel 061-834 9381. Fax 061-832 9248
Mexico City: *Editorial* Manrique de Zuniga 152, Lomas De Virreyes, Mexico DF 11000 Tel 520 3784
Milan: *Editorial* Piazza Cavour 2, Milan 20121. Tel 760 08198 *or* 782279 or Fax 781075.
New Delhi: *Editorial* 23 Malcha Marg, Chanakyapuri, *New Delhi* 110021. Tel: 3014306/8484 Telex: 3161 626.
New York: *Editorial, Advertising and Circulation* 14 East 60th Street, New York 10022. *Editorial* Telex: 66390. Tel: 0212-752 7400. *Advertising and Circulation* Tel: 212-752 4500. Advertising Fax 212-319 0704. *Circulation* Fax 212-3082397.
Paris: *Editorial, Advertising and Circulation* Centre d'Affaires Le Louvre, 168 Rue de Rivoli, 75044 Paris Cedex 01. Telex: 220044. *Editorial* Tel 01033-1-4297 2000. *Advertising* Tel 01-1-4297 0621. *Circulation* Tel: 01-4297 0623.
Rio de Janeiro: *Editorial* Avenida Rio Branco 45, Salas 2001-2003, Centro CEP 20090, Rio de Janeiro RJ. Telex: 213 3589. Tel: 021-263 8845.
Rome: Editorial, Via della Mercede 55, Rome 00187. Telex: 610032. Tel: 06-678 3314.
Stockholm: *Editorial* c/o Svenska Dagbladet, Raalambsvagen 7, 10517 S-Stockholm. Telex: 17603. Tel: 08-618 6088. Fax 08-618 2056
Sydney: *Editorial* Level 55, MLC Centre, Martin Place, Sydney, NSW 2000. Tel 238 2274. Telex 23850 ATTN. F.T. Fax 232 8316 ATTN. F.T.
Tokyo: *Editorial* 11th Floor, Nihon Keizai Shimbun Building, 1-9-5 Otemachi, Chiyoda-ku, Tokyo. Fax 3241 2554. Tel: 3241 2920/2956. *Advertising* Kasahara Building, 6-10 Uchikanda, 1-chome, Chiyoda-ku, Tokyo, 101 Advertising Tel: 03-3295 4050. Fax 03 3295 1264. Circulation Tel 03 3295 1711. Fax 03 3295 1712.
Washington: *Editorial* 1225 Eye Street N.W. Suite 810, Washington DC 20005, U.S.A. Tel (202) 289 5474. Fax: 202 289 5475.
Zurich: *Editorial* Wiesenstrasse 9, 4th Floor, 8008 Zurich. Tel: 382 3090-1 Fax: 382 3092.

SUBSCRIBE NOW
Call Gill Hart on Frankfurt 069 156850

For FT Cityline Directory, FT-SE 100 Index and MF Access phone 0898 123456; Stock Market Report, 0898 123001; UK Company News, 0898 123002; sterling rates, 0898 123004. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

Japan to reaffirm UN commitment

By Robert Thomson in Tokyo

MR Kiichi Miyazawa, Japan's prime minister, is expected today to deliver a strong reaffirmation of the country's commitment to the United Nations peacekeeping operation in Cambodia, as opposition demands for an immediate pull-out intensified.

The Japanese government has been under extreme pressure since the killing last week of a civilian policeman in an ambush, and Mr Miyazawa has been advised to make an address that shows the government is both concerned about the safety of the peacekeepers and is committed to the UN operation.

However, the National Police Agency, which has responsibility for the 75 civilian police officers sent to Cambodia, continued to argue yesterday with the United Nations Transitional Authority in Cambodia (Untac) over the duties given to Japanese officers.

Officials at the NPA say Japanese police, who are not carrying arms, have been given inappropriate responsibilities such as acting as bodyguards and, in some cases, have not been given sufficient water or provisions by the UN authorities.

Relations between Untac and the NPA have been strained since about eight Japanese police officers returned to Phnom Penh, the Cambodian capital, without official approval after the killing of the Japanese officer. The police officers have since returned to their posts.

A Japanese television news programme poll of 690 people last weekend found that 52 per cent believe the police and 600 military personnel should be withdrawn, while 37 per cent believe they should remain in the country.

The killing of the officer has stirred debate over whether the conflict in Cambodia now fits the five principles which supposedly govern Japanese participation in international peacekeeping operations. One of those principles is that a ceasefire agreement is in place, and opposition parties say the Cambodian ceasefire has collapsed.

Meanwhile, a six-member advance party left Tokyo yesterday for Mozambique, where 48 Japanese military personnel are due to assist in another UN operation.

The other members of the group are due to leave before the end of this month and will co-ordinate transport operations.

● Mr Goh Chok Tong, Singapore's prime minister, yesterday suggested that China will not be a significant military threat to the region over the next five years, but he warned that the country's rapid economic growth could be accompanied by an expansion of military ambitions in about 20 years' time.

In a meeting with Mr Toshio Nakayama, the director-general of Japan's Defence Agency, the prime minister said that the US-Japan-China triangular relationship had to remain stable to ensure that China had no incentive to build up its military capability.

French UN commander Capt Michel Jourdan with militiamen after a Khmer Rouge attack near Puok in the north-west of Cambodia

Whale sanctuary vote set for today

By Robert Thomson

A CONTROVERSIAL proposal for a whale sanctuary in the southern oceans is due to be voted on today by the International Whaling Commission, whose members were bitterly divided yesterday over whether the proposal has "scientific merit".

French delegates, aware that an original proposal for an indefinite sanctuary would fail, now propose that the IWC, holding its annual meeting in Kyoto, should introduce a 50-year sanctuary which can be reviewed in 2003.

However, Japanese officials said the proposal, which needs approval from a three-quarters majority of the 32 countries represented, was "unscientific" and beyond the brief of the IWC. They were confident of mustering at least 10 votes, which would be enough to defeat the proposal.

The sanctuary, which has support from the UK, the US and Australia, would cover the area south of the 40th parallel in the waters around Antarctica. It would apply to all whale species, though it may not necessarily include the "research whaling" currently conducted by Japan, which takes about 300 whales a year in the region.

Japanese officials said the IWC had estimated that there were about 760,000 minke whales in the southern oceans. One representative said Japan was likely to receive support from a range of countries including Sweden and Mexico.

While the IWC's scientific committee found that the population of minke whales is large enough to allow limited catches, the committee also condemned Japan for the harvesting of striped dolphins in its coastal waters.

The committee advised last year that there should be an "interim halt in all direct catches of striped dolphins", but Japan admitted at least 1,000 striped dolphins were taken in 1992, and harvesting was continuing this year.

UK and China agree on HK land sale

By Simon Holberton in Hong Kong

ANGLO-CHINESE relations briefly returned to normal yesterday when British and Chinese officials agreed to the release of 127.8 hectares of land for sale in the 1993-94 financial year.

Included in this year's land disposal programme is 45.59 hectares for the Black Point power station, located in the New Territories, which is due to come on stream in 1996. It will be fired by natural gas piped from a gas field near Hainan Island.

The result of the meeting of the Sino-British land commission cheered the Hong Kong stock market. The Hang Seng Index rose 102.74 points to end the day at 6,841.97.

However, British officials cautioned against too much optimism. Although the agreement was greeted with a measure of relief, they pointed out that China benefited directly from Hong Kong land sales and that it had no interest in undermining the colony's property market.

Under the terms of the 1984 joint declaration, half of the proceeds of land sales in Hong Kong accrue to the colony's post-1997 government. A special fund set up to manage those proceeds has accumulated revenues in excess of HK$80bn (£6.6bn).

Still left unresolved by yesterday's meeting was the future development of the colony's container port.

Last year the land commission approved the release of land for the ninth container terminal, but China rescinded the agreement in retaliation for Governor Chris Patten publicising his plans for wider political participation in the colony.

The land commission was due to meet in March. It was cancelled by the Chinese because of the row over Mr Patten's plans.

West Australian politician charged

MR RAY O'Connor, a former West Australian state premier, was charged yesterday with stealing and criminal defamation as part of a state corruption investigation, Reuter reports from Perth.

Mr O'Connor, premier in late 1982 and early 1983, was charged with one count of stealing and two counts of criminal defamation. He was released on his own recognisance and will appear in court on Friday when formal charges will be read.

Police allege he stole a cheque for A$25,000 (£11,300) from the Western Australian Liberal Party in April 1984 and criminally defamed Mr George Cash, now the Western Australian mines minister, between March and April 1987.

If found guilty, he could face a maximum jail term of seven years.

Mr O'Connor succeeded Sir Charles Court as premier in late 1982, but his Liberal party government was ejected from office in February 1983 by the Labor party under Mr Brian Burke.

Mr Burke also faces criminal charges in a separate case and will stand trial in June on four counts related to A$17,000 in overseas travel expenses.

Prosecutors allege that Mr Burke, who was later Australian ambassador to Ireland, claimed the expenses even though the travel was paid for by the state.

They say that he used the money to repay an overdraft.

Thai toy factory fire toll rises above 200

By Victor Mallet and William Barnes in Bangkok

MORE THAN 200 workers, most of them women, were killed by a fire in a toy factory on the outskirts of Bangkok on Monday night in one of the world's worst industrial accidents.

Thai officials said hundreds more were injured and taken to hospital suffering from burns, smoke inhalation and limbs broken from jumping from the building's upper floors.

Many of the dead were found piled up at ground-floor exits or crushed under a collapsed staircase.

Mr Chavalit Yongchaiyudh, the Thai interior minister, said yesterday as more bodies were unearthed from the wreckage that he was establishing a committee to investigate the cause of the fire, the state of the factory buildings and its manufacturing processes.

The factory was operated by Kader Industrial (Thailand), a subsidiary of Hong Kong's Kader Holdings.

It produced stuffed and plastic toys, including Babar the Elephant and characters from the Muppets television show.

No outside fire escapes were visible in the wreckage of the three buildings which were destroyed, or on a surviving four-storey building where the toys were stuffed with foam.

Workers who escaped the blaze said there had been earlier fires at the factory. They also said supervisors told them to stay at their posts when Monday's fire was first noticed.

The tragedy has reminded Thais of the price they sometimes pay for an "economic miracle" based on export industries and cheap labour. Hundreds of thousands of Thais have flocked to the Bangkok metropolis from poor rural areas to work as labourers, maids or prostitutes.

Corruption is widespread among low-paid government officials, and environmental and safety standards are often poorly enforced.

Japan mounts offensive on trading rules

By Michiyo Nakamoto in Tokyo

JAPAN has fired a potentially explosive shot into the ongoing battle over trade with its key trading partners by accusing them of unfair trade practices in a report released by the government yesterday.

The report from Japan, which is often on the receiving end of criticism about its trade practices, aims to counter a widespread perception that it is a frequent violator of international trade rules. It highlights the extent to which Japan's top 10 trading partners, which are members of the General Agreement on Tariffs and Trade, also resort to unfair trade practices.

The advisory committee to the Ministry of International Trade and Industry, which prepared the report, explains its purpose as being to adopt "an impartial approach to unfair trade practices by using internationally accepted rules... [and] to encourage mutual efforts to cope with unfair trade policies by recognising that all countries employ such policies and measures to some degree."

It is the most comprehensive official response by Japan to recent criticism by its trading partners of the country's massive trade surplus and the underlying suggestion that the surplus is due to practices that do not conform to international rules.

The report also contains a strong rebuttal of the new US administration's position that Japan's stubborn trade surplus can only be reduced by seeking measurable results in opening its markets to foreign products.

A results-oriented policy not only lacks objectivity, it mistakenly links trade imbalances directly with inadequate market access, the report states.

The US, which recently identified construction, architectural and engineering services as areas in which the Japanese government discriminates against foreign suppliers, comes in for heavy criticism for its tendency to take unilateral action in retaliation for what it considers unfair trade practices. This, Japan says, is counter to the spirit of multilateral trade forums and counter-productive.

"The US is without parallel in imposing measures that force its trading partners to abide by unilateral judgments," the report states. "In our view, the unilateral approach often only impedes the settlement of problems that are appearing... in the international economy."

The report concludes that multilateral forums and internationally accepted rules are the best way to resolve trade disputes and recommends that the Gatt dispute settlement mechanism be used "whenever necessary and feasible".

To that end, a successful conclusion of the Uruguay Round is crucial to ensure compliance with Gatt recommendations and to prevent unilateral measures being adopted to resolve trade disputes.

Buying an end to Indonesia's logjam

William Keeling on a tortuous route to better infrastructure

IT IS the businessman's nightmare: news that supplies for his factory are delayed by port congestion coincides with a power failure which shuts his plant, resulting in a default on important orders. An overloaded telephone network foils all attempts to contact clients. Tired and out of pocket he heads for home, only to get stuck for hours in a traffic jam.

It is on the cards in Indonesia, south-east Asia's largest country, where existing infrastructure creeks under pressure of the weight of rapid industrialisation. In its 1992 country report, the World Bank estimated that more than $70bn (£45.4bn) of investment in power, telecommunications and transport would be needed this decade.

Many businesses have seen it as an opportunity to offer private sector participation in infrastructure projects. Their first proposals, however, have suffered mixed fortunes, placing in doubt forecasts that the private sector could provide $25bn in investment before 2000.

In 1990, Trafalgar House of the UK was close to agreeing a $350m Build, Operate and Transfer (BOT) toll-road project to connect the current motorway system of Jakarta, the capital, to the city of Bandung, 60 miles south east.

The contract, however, was not signed. The main stumbling block was an Indonesian law that road tariffs can only be set by presidential decree. Although some private sector toll-roads have been constructed by Citra Lamtoro Gung, a local company headed by President Suharto's eldest daughter, foreign banks are reluctant to provide finance unless state controls over tariffs are eased.

One project that looks likely to proceed with private sector participation is the launch and operation of two telecommunication satellites. Last month, to the surprise of some government ministers, a $128m contract for the satellites was signed between Hughes Aircraft Company of the US and Satelindo of Indonesia.

Satelindo is 40 per cent owned by two state enterprises and 60 per cent by Bimagraha Telekominido, a private company headed by Mr Bambang Trihatmodjo, President Suharto's second son. Satelindo won the right to own and operate the satellites without an open tender, angering donors who have committed millions of dollars to the telecommunication sector.

Ministers say the deal's financing is still uncertain, although Mr B J Habibie, the technology minister, may have used an invitation to the US Exim Bank last week to lobby for export credits. Indonesia's state aircraft company, IPTN, which is run by Mr Habibie, is expected to build components comprising up to a third of the satellites' value.

Jakarta's port: the old amid delayed plans for the new

Brokers say Satelindo is planning a Rp700bn (£215m) bond issue next year and will need Rp1,460bn in financing over the next five years.

Less likely to succeed is a private proposal to enlarge Jakarta's main port of Tanjung Priok. In 1990 the state-owned port authority looked at options for expanding the existing container facilities, with a capacity of about 1.1m TEU (20ft equivalent units) containers, to accommodate demand of 1.5m TEU by 1996 and 2.4m TEU by the end of the decade.

Donors say a BOT proposal was received from a consortium led by the Humpuss Group of Mr Hutomo Mandala Putra, President Suharto's youngest son, and including Mitsui of Japan and P&O of the UK. The proposal was accepted, without resort to open tender, in June 1991.

The project, however, required the resettlement of nearly 40,000 people from a slum area. Concern over how this would be achieved and problems in financing the high cost of the consortium's proposal – the civil works alone came in at $200m – have hindered progress.

Ministers say the consortium's potential financial backers have withdrawn and an alternative project is likely to proceed under state ownership with funds provided by international donors. Sufficient new capacity, however, may not be installed in time to prevent shipping companies demanding surcharges to cover delays in using Tanjung Priok.

Problems in finalising private sector deals have also hit power sector proposals. Twelve months ago Mission Energy of the US received government approval to build, operate and own two 600MW units of the Paiton power complex, worth $2bn, after a two-year battle by Indonesia's Bimantara Citra Group, also owned by Mr Trihatmodjo, to win the contract.

Bimantara Citra has since joined up with Siemens of Germany to bid, without apparent competition, for a further two 600MW units at Paiton.

Project officials say Mission Energy currently has a 36-member negotiating team in Jakarta and talks are at an advanced stage.

There is much resting on the negotiations. As one government official noted: "Everybody is looking to Paiton. It will set the standards for the future."

US farmers give warning on Gatt

By Nancy Dunne in Washington

THE American Farm Bureau, the most consistent advocate of farm trade reform within the Uruguay Round, is warning that the US agriculture lobby may withdraw its support if US negotiators accept EC offers on market access for commodities.

Today US and EC agriculture negotiators in Washington are scheduled to start the final push to get agreement before the leaders of the Group of Seven industrialised countries meet in July in Tokyo.

Mr Dean Kleckner, president of the Farm Bureau, has travelled thousands of miles during the seven years of the Round negotiations, accepting what he says is increasingly less for the US farm sector as the EC has proved intractable on concessions.

However, the final straw could be what Mr Kleckner calls "padding of the EC's tariff equivalents" under the tariffication process, which converts quotas into tariffs.

The Dunkel draft for a final act to the Uruguay Round, proposes that Gatt countries grant increased market access of 3-5 per cent. According to Mr Kleckner and Mr Paul Drazak, also of the Farm Bureau, the French are pushing for a settlement which could actually reduce market access in products which already have more than 3-5 per cent.

They say tariffs would remain the same while prices under the Common Agriculture Policy are reduced. This would increase the percentage of the total price covered by a tariff, increasing the price gap between EC products and the prices of foreign competitors.

Other US farm groups have grown disillusioned with the Gatt talks, particularly as it has become clear that no Administration would be able to convince the EC to to phase out all subsidies. They say the US gets little from the 20 per cent reduction in domestic supports already negotiated; the proposed agreements on cuts in export subsidies and food standards will be useful but does not inspire much enthusiasm.

MOTORWAY DISPUTE

Thailand reneges on $1bn contract

By Victor Mallet in Bangkok

A DECISION by the Thai government to renege on the terms of a $1bn (£636m) elevated motorway contract for Bangkok just as the road is due to open has outraged foreign and local investors, and threatens to undermine efforts to finance future infrastructure projects in Thailand.

Foreign and Thai banks which have committed the equivalent of Bt20bn (£513m) to Bangkok Expressway Co Ltd (BECL), the construction consortium led by Kumagai Gumi of Japan, are due to meet in Hong Kong today to discuss the increasingly bitter dispute.

The banks have suspended loan disbursements to BECL since March

BECL signed the 30-year contract to build and operate the road with the state-owned Expressway and Rapid Transit Authority of Thailand (ETA) in 1988.

BECL consortium members and lenders now accuse both the ETA and the Thai government of breaching the contract on a number of counts – in particular by refusing to charge the toll fees for motorists clearly specified in the contract.

The expressway dispute is regarded as a vital test-case because Thailand is expected to seek billions of dollars in credits in the next few years for much-needed infrastructure projects.

Bangkok is probably the most traffic-congested capital in the world there are three elevated railway projects planned for the city worth a total of about $7bn.

Eleven Thai banks agreed to provide up to Bt15bn in credit facilities for the new expressway and several of them also have equity; a group of 31 foreign banks, led by DKB Asia, LTCB Asia, Crédit Lyonnais and National Westminster, agreed to lend the equivalent of Bt5bn; and the Asian Development Bank provided $40m in long-term credit and equity.

It was regarded as a commercial "build-operate-transfer" project – one of the first in Thailand – and there were no government guarantees or subsidies. Predictable cash flow as specified in the contract is therefore seen as vital by the lenders and investors.

The worst blow to BECL came when the cabinet decided unilaterally last month to impose a 20-baht toll for cars using the expressway system, instead of the contracted 30-baht fee, apparently because it feared opposition from Palang Dharma, one of the Bangkok-based political parties in the coalition government.

NEWS: THE AMERICAS

Clinton set to back off on tax credit

By George Graham in Washington

PRESIDENT Bill Clinton yesterday tried to regain momentum for his economic programme by appealing to voters in middle America to help him take on the "powerful lobbyists" who are beginning to line up against *his proposals*.

But as he spoke to high school students in Chicago, the White House was already preparing to give ground on one important element of the package, agreeing to abandon its proposal for an investment tax credit and instead to accept a lower increase in the corporate income tax rate than it had originally requested.

The investment tax credit has featured in Mr Clinton's economic programme ever since last year's election campaign, but it has never won much support from either business or Congress.

The proposal included a permanent credit for businesses with sales of less than $5m (£3.2m), as well as a temporary two-year credit for larger businesses, intended to stimulate the economy in the short run and encourage companies to create new jobs.

Together, the two credits were expected to cost $24bn over five years, but critics said they would at best only bring forward investments that would have been made in any case.

Businesses have generally said they would prefer a lower tax rate. The administration, which at first had tried to replace the investment tax credit with other business investment incentives, now *seems likely to accept* a corporate tax rate of 35 to 35.5 per cent, instead of the 2 percentage point rise to 36 per cent it had originally requested.

Mr Clinton has been caught in a cleft stick over his tax bill as the first flush of Democratic *unity behind the new president* has faded.

Flexibility on points such as the investment tax credit is the necessary price for stronger support in Congress for the overall plan, but every sign of that flexibility only goes to encourage more members of *the US Congress to press their* own private amendments.

The proposed new energy tax is a particular target for changes.

Mr Clinton, buoyed by two days outside the confines of Washington, expressed confidence that he could still drive *his legislative agenda* through Congress, with the help of renewed backing for his plan from the voters.

"All I have to do, I think, is go out here and ask them to help me sell it because the American people want something done about the deficit. *They want something done about the economy*," Mr Clinton said.

UNDER PRESSURE: Clinton takes his programme to the people of Ohio

Brazil may lose another finance chief

By Christina Lamb in Rio de Janeiro

THE FUTURE of Brazil's latest finance minister hung in the balance yesterday as President Itamar Franco came under mounting pressure to sack him over alleged irregularities concerning $123m (£80m) in loans to Ecuador and Peru.

Mr Eliseu Resende, who has been at the helm of Latin America's largest economy for just six weeks, is under fire for allegedly favouring his long-time former employers, construction group Norberto Odebrecht, by approving government project financing of $115m to Peru and $18m to Ecuador. The financing, which enabled Odebrecht to win various infrastructure contracts, was approved against the recommendations of the central bank.

Yesterday newspaper editorials, business representatives and even the president's political allies were clamouring for Mr Resende's dismissal. Mr Franco cancelled all his appointments and summoned Mr Resende, who has denied any impropriety over the loans, to explain himself.

Mr Franco is in a delicate position. Assuming office after the impeachment of President Fernando Collor on corruption charges, Mr Franco has made honesty the hallmark of his administration and cannot afford to retain ministers whose integrity is in doubt, particularly in the key portfolio of finance.

However, in the last eight months Brazil has got through three finance ministers and two central bank governors. *Last Friday* Ms Yeda Crusius resigned as planning minister, complaining that she had not been consulted over the country's economic plan.

Another change would further damage government credibility and heighten economic instability, pushing inflation beyond its current level of 30 per cent a month.

Mr Aldo Lorenzetti, a director of the powerful São Paulo Federation of Industries *(Fiesp), said:* "We can't just keep changing ministers left right and centre".

A change would also harm international negotiations. At the last round of talks with the International Monetary Fund two weeks ago, Mr Michel Camdessus, IMF managing director, said: "It would be nice if a Brazilian economic team stayed in place long enough for us to understand what they are trying to do."

Armed forces' discontent worries Peruvian leaders

By Sally Bowen in Lima

RUMBLINGS in Peru's armed forces have prompted coup rumours twice in little over two weeks, again calling into question the political stability *of President Alberto Fujimori's* administration.

Army discontent is not directed at the president. On the contrary, apart from the usual complaints about pay levels, the military, like most Peruvians, broadly support the government's economic and counter-subversion strategy.

But sectors of the military have grown increasingly hostile to two of Mr Fujimori's closest collaborators: armed forces chief General Nicolas Hermoza, and Mr Vladimiro Montesinos, the president's intelligence adviser and confidant, who control internal armed forces promotions.

General Rodolfo Robles, who until recently ranked number three in the army hierarchy, has alleged the two men were implicated in a *paramilitary* death squad. He claims that they were directly responsible for several recent disappearances and extra-judicial killings.

Before making his allegations late last week, Gen Robles took refuge in the US embassy in Lima with his family, claiming their lives had been threatened. He has since been flown to Argentina where he is continuing to call for the removal of both Gen Hermoza and Mr Montesinos "for the health of the nation".

Gen Robles, who this week was stripped of his rank, is widely respected for his defence of human rights.

The accusations were immediately denied by the government. Mr Fujimori, in a series *of television* appearances at the weekend, did his best to limit the damage and pledged support for both aides. He said that recent successes against guerrilla organisations proved the "efficiency" with which Peru's armed forces and the national intelligence *service* were operating.

However, the accusations are likely further to arouse international alarm. The Clinton administration has made it clear that human rights will be the cornerstone of future policy in Latin America.

Quebec nationalists fight to retain French-only law

By Bernard Simon in Toronto

FRENCH-speaking nationalists in Quebec are seeking to mount a campaign against proposed relaxations of the province's French-only language law.

Premier Robert Bourassa's Liberal government has tabled legislation which would overturn a 15-year ban on the use of English on outdoor commercial signs, and abolish the Commission de Protection de la *Langue Francaise*, nicknamed the "language police".

The draft legislation, known as Bill 86, also makes modest concessions on the use of English and other languages in education by exempting some immigrants from attending French schools and allowing *English immersion classes* at French schools.

Bilingual signs and immigrants' language rights are sensitive political issues in Quebec. Nationalists are expected to depict the latest proposals as further evidence of the threat to their island of French culture in English-speaking North America. About 80 per cent of Quebec's 7m residents are French-speaking.

The fuss over Bill 86 is not *expected to have a lasting* impact. The Liberals have a large majority in the national assembly, and Mr Bourassa's popularity is high following a successful battle against skin cancer earlier this year.

Bill 86 is likely to be on the statute book by the end of *June, well ahead of the* campaign for the next provincial election, which must take place before autumn 1994.

Meanwhile, support appears to be waning for the Bloc Quebecois, the federal wing of the separatist Parti Quebecois. Judging by recent opinion polls, the BQ will capture no more than 25-30 seats – and possibly fewer – in the countrywide general election later this year.

Mr Robert Keaton, president of Alliance Quebec, which represents the interests of the province's anglophone community, said that Bill 86 "sends a positive message that there's a legitimate place for the English-speaking community in Quebec."

Talks re-open over $44bn commercial debt

By Christina Lamb

TALKS reopened yesterday between Brazil and the full committee of its foreign creditor banks over a deal to restructure the country's $44bn (£28.5bn) commercial debt.

Mr Pedro Malan, Brazil's chief debt negotiator, said in an interview before the talks that the main item on the agenda would be redrawing the balance of debt conversion options made by the banks in February.

The banks chose heavily in favour of the par bond option, an instrument fully guaranteed for principal and one year's interest and consequently the most expensive for Brazil. The banks wanted 64 per cent of the total stock of debt in that option.

Mr Malan said this has dropped to 59 per cent after concessions by big banks, but it far exceeds the 40 per cent maximum desired by Brazil.

Nadir blames UK for failed Turkish bid

By John Murray Brown in Kyrenia

MR ASIL Nadir yesterday blamed the British Foreign Office for the collapse of a last minute Turkish rescue bid which ultimately forced Polly Peck International (PPI) into administration in October 1990.

The former PPI chairman, who jumped bail to flee to northern Cyprus last week, said a credit package from Turkish state banks was ready to be signed, until Mr Douglas Hurd, foreign secretary, intervened.

Speaking for the first time about the role President Turgut Ozal's government to salvage the group, Mr Nadir said: "There were lots of unanswered questions" about the the role of the Foreign Office.

"When the Turkish government tried to help a British public company, there should only be gratitude from Britain not a threatening telex from the *foreign office*," Mr Nadir said yesterday.

Mr Nadir described the UK government intervention as "more crude than Hitler's message to Chamberlain. It was none of their business to behave in that manner".

In October 1990, just before the administration order took effect, three Turkish banks had pledged £57.5m in another rescue effort, according to Mr Nadir.

The creditors, however, refused to provide "a sensible standstill period" to waive the repayments on the PPI debts, and the initiative collapsed.

There was one last attempt to help Mr Nadir, when it came to his bail money after he was arrested on December 15 1990, charged with theft and false accounting. President Ozal then instructed the state owned Ziraatban to put up part of the £3.5m.

Separately, Mr Ramadan Guney, a north London businessman, put up £1m. Asked what he planned to do about those who stood to forfeit money pledged as bail. Mr Nadir said yesterday that his "supporters will be able to handle any situation and nobody will be hardshipped".

Mr Nadir will a have chance to test his support in Turkey if he returns, as planned, to reclaim some of his assets. However with the death of Mr Ozal on April 17, he may find Turkish officials less receptive to his overtures.

BA managers told to reassure staff over cuts

By Paul Betts in Mexico City

MR ROBERT Ayling, group managing director of British Airways yesterday wrote to all BA managers telling them to inform all its 45,000 UK employees it would do everything it could to safeguard jobs in Britain.

However, the letter warned that the flag carrier will continue cutting costs of loss-making UK operations as the only alternative to closure or disposal of troubled businesses.

BA is currently facing the threat of industrial action from its pilots, cabin crews and ground staff. The unions fear this strategy could be the start of a broader policy to reduce pay and conditions throughout the company.

The letter from Mr Robert Ayling, BA's group managing director, reflects the airline's growing concern that it may face mounting industrial action. It believes union positions are hardening over its globalisation strategy and its efforts to create low-cost subsidiaries for its UK regional services and the Gatwick-based European operations it acquired from Dan-Air last year.

Shipyard's future at risk after losing order

By David White, Defence Correspondent

THE FUTURE of the long-established shipbuilding industry on Tyneside, north east England, was placed in jeopardy yesterday when Swan Hunter lost its bid for a vital contract to build a 20,000-tonne helicopter carrier for the navy.

The contract, believed to be worth about £170m, has gone instead to VSEL, the submarine yard at Barrow-in-Furness, north west England, in conjunction with the Norwegian-owned Scottish company Kvaerner Govan.

Swan Hunter described the surprise decision as "potentially terminal".

Mr Jonathan Aitken, defence procurement minister, said the VSEL bid won "by a very substantial margin of more than £50m".

The plan for a helicopter carrier was thought likely to be dropped in MoD budget cuts but was revived in March.

The ship, to be called HMS Ocean, is designed to carry 12 helicopters, capable of landing several hundred Royal Marines. This role was formerly assigned to HMS Hermes, sold to India in 1986.

Swan Hunter was hoping to secure subsequent contracts for two large assault ships, worth about £200m each. Work on current orders – completing three navy frigates – will run out next year.

The yard at Wallsend employs 2,200, compared with 4,500 when it was privatised in a management buyout in 1986. Since it opened in the 1870s, it has constructed 2,700 ships, from the famous Cunard liner Mauretania to the current aircraft carriers Ark Royal and Illustrious.

VSEL said the jobs argument was the same whether the new helicopter carrier went to Barrow-in-Furness or the Tyne. The contract marks the submarine builder's return to surface ship work after an 11-year absence. However, under the contract, the ship itself will be built at Kvaerner Govan on Clydeside and will be turned into a military vessel at VSEL.

Technology limits road pricing plans but permit system still possible on motorways

Pay-as-you-go tolls ruled out until 1998

By Richard Tomkins, Transport Correspondent, in Gothenburg

MR JOHN MACGREGOR, transport secretary, yesterday firmly ruled out the introduction of pay-as-you-go tolls on Britain's motorway system for at least five years.

He left open, however, the possibility that money could be raised from road users earlier than that by requiring them to buy and display an annual permit if they wanted to use the motorways.

Mr MacGregor is shortly expected to publish a consultation paper setting out the options for raising more money from motorists to help finance the government's £19bn road-building programme.

Yesterday he visited the world's most advanced experiment in road pricing technology at a test site in Gothenburg, Sweden, to see how charges could be collected electronically from motorists using roadside beacons that debit charges from devices inside their vehicles.

But Mr Jonas Sundberg, senior researcher for Sweden's Transport Research Institute, told Mr MacGregor that even when the technology had been fully developed, it could not be introduced nationally in Britain until at least 1998 because of the time it would take to fit the devices to the country's 25m vehicles.

Mr MacGregor has already ruled out the idea of collecting charges through Continental-style toll-booths because they would slow traffic down and take up too much land.

That leaves annual permits as the only short-term measure available.

Mr MacGregor conceded that electronic road tolls could not be introduced in Britain for at least five years. "I have certainly been told by all the experts I have spoken to so far that the first feasible moment is 1998," he said.

But he added that electronic road tolling was not an issue that could be rushed.

"You have to have a political debate, you have to decide whether you take up this option, you have to get legislation for it and you have to prepare for it."

Mr MacGregor said the permit system was a possible alternative. "There is a discussion about that in the green paper, (consultation document) but there is a lot of difficulty about it because it doesn't have the flexibility of the electronic system. It would be feasible and technologically possible, but you would have to iron out a lot of practical problems."

One of the chief objections to a permit system is likely to be the difficulty of reconciling it with privately built toll roads, which the government is keen to encourage.

Drivers would be reluctant to pay tolls on privately built roads if they had already paid for a permit to use the state-owned motorways.

One solution likely to be explored in the green paper is the idea of so-called shadow tolls, under which the government would reward private sector operators for building motorways by paying them a fee according to the number of vehicles that used them.

● A bridge rather than a tunnel is the option preferred by government for the proposed third Blackwall crossing of the Thames to relieve the notorious traffic bottleneck in east London.

Subject to planning procedures, which are likely to involve a public inquiry, the new crossing could be completed around the turn of the century.

A department brochure published as part of the consultation says that the substantial cost difference between the £130m for the bridge at 1992 prices, and the £185m for the tunnel clearly favoured the former.

Britain's motorway drivers may face the introduction of a permit scheme to help finance the UK's £19bn roadbuilding programme

Warnings over exports to Iraq 'ignored', inquiry told

By Jimmy Burns

SENIOR military advisers warned in the late 1980s that the export of machine tools by British exporters was contributing to a major build up of Iraq's defence capability, the Scott inquiry into arms sales to Baghdad heard yesterday.

Their advice, however, was ignored by the Department of Trade and Industry and other government officials, according to Lt-Col Richard Glazebrook, a retired army officer who was a member of a Ministry of Defence working group which was meant to vet export licences to Iraq.

Lt-Col Glazebrook said that concern about British exports had deepened substantially after February 1989.

By then the group had been told of a secret government decision to relax the rules banning the sale of defence-related equipment to Iraq which was withheld from Parliament.

According to Lt-Col Glazebrook this led in practice to sensitive export licences being allowed to accumulate, only to be approved virtually without restrictions by the Department of Trade and Industry which overruled the advice of some Ministry of Defence officials.

Lt-Col Glazebrook said his concern and that of other military advisers in the MoD working group "crystalised" in June 1989 after the group suspected that a number of machine tool export licence applications had military uses.

"The more applications were uncovered the more I realised that this was a can of worms," Lt-Col Glazebrook said. His concern was the subject of a detailed memorandum which was among the documents the government tried to suppress "in the national interest" during the trial of three former directors of the Coventry-based machine tools manufacturer Matrix-Churchill.

The trial collapsed before the document titled 'British Assistance to the Emerging Iraqi Arms Industry' was ever used in court.

But yesterday it was read virtually in full by the counsel for the inquiry as part of the evidence Lord Juctice Scott is accumulating about the extent the government may have breached its own original guidelines governing defence exports to Iraq.

The hearing continues today.

Tory rebels hope to win tax break for shipping

By Alison Smith

TORY backbenchers will turn the heat on government ministers over a further issue today as senior Conservatives renew calls for extra help for the UK shipping industry.

Sir Giles Shaw, a former trade minister and a member of the powerful executive of the 1922 committee of Tory rank-and-file MPs, has proposed a change to the finance bill to give the shipping industry 100 per cent first-year capital allowances.

Other senior Tories have signed up to his amendment, and the opposition is also expected to give them support in the debate late tonight.

On Monday, a rebellion of rank-and-file Conservative MPs over the plans to extend Value Added Tax to domestic fuel cut the government's majority to just 10.

The MPs involved are still finalising tactics. If they do not press the matter tonight, one option is to return to the issue at the next detailed discussion of the budget later in the summer.

The government is expected to stick to its previous response saying that ministers still believe it would be difficult to justify the tax break.

Major under pressure to reshuffle cabinet

By David Owen

SPECULATION ABOUT a summer cabinet reshuffle gathered fresh momentum yesterday when Mr John Major refused to confirm that Mr Norman Lamont, the chancellor of the exchequer, would present this year's second budget.

Challenged repeatedly by Mr John Smith, the opposition Labour leader, in front of a noisy House of Commons Mr Major responded aggressively but stopped short of giving the requested assurance.

While it would be virtually unprecedented for a prime minister to comment on possible cabinet changes in the way demanded, Mr Major's refusal to be drawn reinforced expectations at Westminster that Mr Lamont will be moved in a July reshuffle.

Meanwhile the government staged a retreat in its long-running battle with teachers by announcing that mandatory tests in schools would be simplified and streamlined from next year.

Its decision, rushed out in a House of Commons statement after a morning of Downing Street crisis-management, appeared to calm the rising discontent among Tory MPs about the handling of the dispute.

But it failed to persuade the teachers to lift their boycott on this summer's tests.

The row, which had set the government against most of the educational establishment and prompted growing unease among parents, contributed to the government's disastrous performance in last week's county council elections.

Earlier Mr Patten had been said by friends to have been "incandescent" at press reports that the prime minister's office had "bounced" him into a climbdown.

Coming in the wake of Monday night's embarrassing backbench revolt over the imposition of VAT on domestic fuel bills, the prime minister's remarks about the chancellor added to the impression of a government in disarray after last week's disastrous Conservative performance in elections across the country.

They contrasted sharply with the vote of confidence he offered Mr John Patten, the beleaguered education secretary, whom he said he was "four-square" behind. At the very least they indicated Mr Major was keeping all his options open.

Arriving in the chamber to now customary Labour shouts of "Resign!", Mr Major was immediately challenged by Mr Smith, who asked: "Can you tell us if the budget in November will be presented by the present chancellor?"

Mr Major retorted by branding the question "a hoary old chestnut" and saying he had "not yet even begun to contemplate cabinet changes."

He went on to praise Mr Lamont's record while avoiding giving a direct answer to Mr Smith's question. It was "because the chancellor has taken difficult decisions that we now have inflation at a 25-year low, interest rates at a 15-year low and the prospect of the fastest growth in Europe this year and next year."

When Mr Smith repeated his question the prime minister responded more aggressively, referring to last week's Labour mix-up over the party's economics spokesman in the Lords. "If I wanted advice on cabinet making, I would not seek it from you, who last week had to sack your own economic spokesman for incompetence," Mr Major said.

Offering "a third shot" at removing the question-mark over Mr Lamont's future, Mr Major retorted with a reference to his own assessment of last week's election results: "Why can't you just admit you have got a bloody nose! It's a good deal more dignified."

Smith set to follow NZ model on PR

By Ralph Atkins

MR JOHN SMITH, the opposition Labour leader, is preparing to tell his party that it should back the principle of changing Britain's electoral system – provided reform is supported in a national referendum.

He is working on a plan intended to rally opponents and supporters of electoral reform while leaving Labour, after its autumn conference, with a clear statement on how it would act in government.

Deep internal divisions over electoral reform will be highlighted today when Labour MPs debate the report of the party's electoral reform commission under Professor Raymond Plant.

Mr Smith will set out his thinking to next Wednesday's meeting of Labour's ruling National Executive Committee. Proposals that Labour should embrace electoral reform have already angered the substantial section of the Labour party – including Mrs Margaret Beckett, deputy Labour leader – that wants no change from the current "first past the post system" for electing MPs.

The Plant commission recommended a French-style "supplementary vote" system, regarded as a compromise by supporters of proportional representation.

Mr Smith is as cautious about reform but is understood have to have accepted the case for change – although the extent to which he will back the Plant report's conclusions is unclear. He is expected to reject calling for a Royal Commission on electoral reform that would have delayed any decisions.

Instead, Mr Smith will aim to keep supporters of "first past the post" on side by making clear that no change would be made until after at least one referendum.

Mr Smith is seriously considering a scheme proposed by Charter 88, the constitutional reform movement, to the Plant Commission and based on a New Zealand model. In that country, a "prefer-endum" was held last year containing two parts: voters were asked whether the "first past the post" system should be changed and then to chose between alternative electoral systems.

New Zealand plans a further referendum for later this year on legislation implementing an "Additional Member" electoral system.

Amid pressure within Labour ranks Mr Smith is also ready for a confrontation with trade union bosses over their links with the party.

Britain in brief

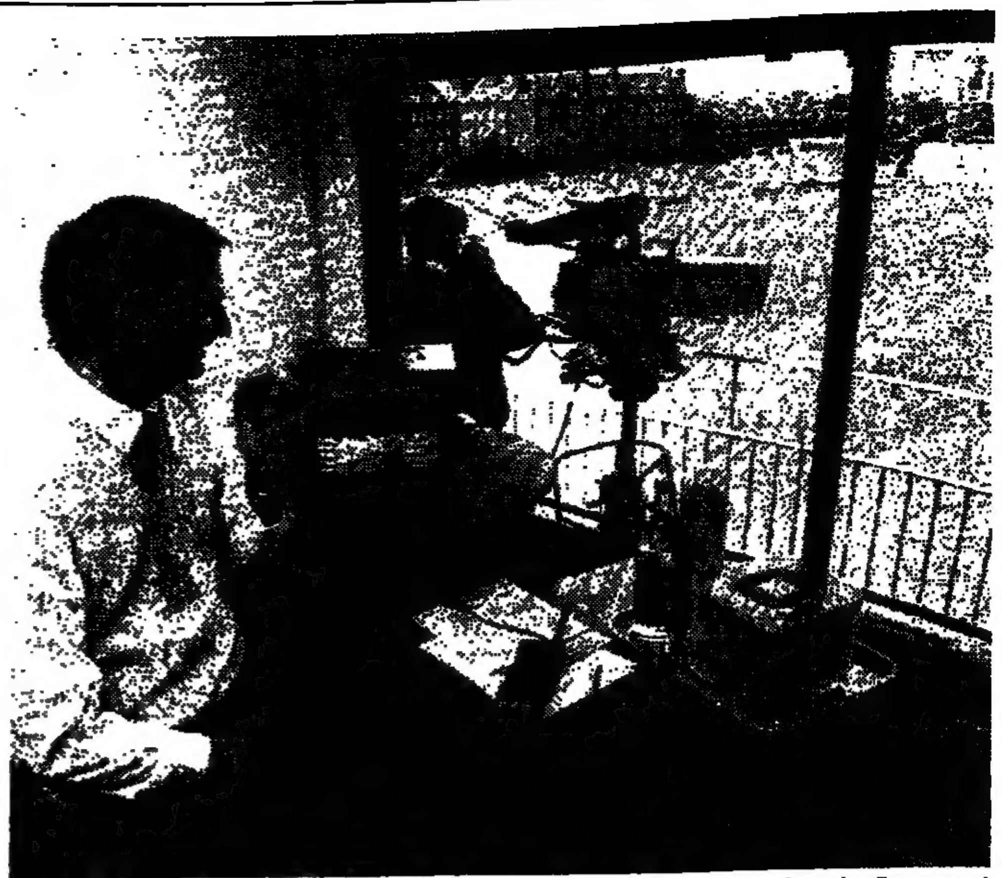
Overseas role in newspaper may increase

Newspaper Publishing plans to raise new significant capital to develop The Independent and The Independent on Sunday to compete in the increasingly competitive national newspaper market.

A range of financing options will be considered so that around £10m can be devoted to improving the titles. They include the use of internal resources, bank borrowing and raising new capital from existing shareholders and potential new investors.

Newspaper Publishing confirmed last night that its principal two shareholders, El Pais of Spain and La Repubblica of Italy, have made it clear that they are willing to increase their stake in the company. At the moment each of the continental European groups hold more than 18 per cent of the company and both could lift their stakes to around 25 per cent each giving them effective control.

No early bid for Newspaper Publishing is expected by the main founder Mr Andreas Whittam Smith but it is clear a bid could easily be triggered under Stock exchange rules if El Pais and La Repubblica increased their stake and were seen to be acting in concert.



Cricket, England's summer sport, underwent a modest revolution yesterday. As Surrey met Lancashire at the Oval, London, a third umpire watched the game on TV. A two-way radio linked him to the on-pitch umpires to help judge run-outs or stumpings. The Test and County Cricket Board watched the experiment and it may be used in international matches later this season.

SA off-shore broker in court

Funds deposited with an investment company run by Mr Ian Lloyd-Wright, a South African-based off-shore broker, appear not to have been placed in any investment funds, lawyers for the Securities and Investments Board told the High Court.

Instead, much of the money appeared to have been paid to the benefit of a Mr Kitallides, they said.

The court renewed injunctions against Mr Lloyd-Wright and his company, the Delaware-based Lloyd-Wright Investment Corporation, freezing all assets world-wide pending further SIB inquiries.

Lawyers for Mr Lloyd-Wright said he strenuously denied any dishonesty.

Telecom plan for City

A new telecommunications company is about to start digging up the City of London's streets to lay its own network, and expects to be offering local services to rival BT and Mercury by the autumn.

City of London Telecommunications (Colt) has been granted a government licence to build and operate its own fixed-wire network within the London region, extending out to the M25 boundary.

Colt, an offshoot of Fidelity, a US investment management company which has telecoms concerns in the US, intends to spend "tens of millions" in the next few months on the first stages of constructing its own fibre-optic network.

Boost in car sales delayed

Car sales in Britain will not bounce back to the 1980's boom levels until the next century, according to a report issued by the Henley Centre for Forecasting. Although the number of drivers is expected to grow, customers' attitudes towards car purchases have changed significantly during the recession – drivers are now accepting lower status or second hand cars, and delaying for 15% longer before buying a new car, the report said.

No caffeine drinks limit

The government decided not to introduce a maximum caffeine limit for soft drinks and freed manufacturers to decide the sugar content. Mr Nicholas Soames, food minister, said he had asked the Food Advisory Committee to review its 1988 recommendation on the need for a caffeine limit. No adverse effects on young children had been reported since the introduction of high caffeine soft drinks; any UK restriction could not be applied to imports from the EC.

N-waste store criticised

A government advisory committee attacked the timetable for opening an underground store of nuclear waste at Sellafield in Cumbria as unrealistic.

The Radioactive Waste Management Advisory Committee's annual report said that "disposal of radioactive waste is very unlikely to take place in the (proposed) repository any earlier than 2010", three years after the target date. The underground caverns, to be constructed by UK Nirex, the nuclear industry's waste-disposal company, are intended to take low and medium level waste from the UK's Magnox nuclear reactors and from British Nuclear Fuels' Thorp plant at Sellafield.

MANAGEMENT

James Buxton describes how moving factory has helped to rejuvenate Barr & Stroud

Sights set on a new target

Tom O'Neill, managing director of Barr & Stroud, points to an L-shaped stretch of desk space, indistinguishable from any other in an open plan office. "That's where I sit," he says proudly.

He adds: "It was only when I said that was where I was going to work that other senior executives accepted the idea of not having their own offices."

Barr & Stroud, which makes equipment such as gunsights, periscopes and rangefinders mainly for the defence industry, is claiming success in breaking away *from* what O'Neill admits were the grossly inefficient management and production methods of its past.

In common with other defence subcontractors the company is having to face up to the competitive challenge posed by the ending of the cold war, and by changes in the old cosy relationship with its customers. What makes its experience unusual, however, is the galvanising effect which re-locating to new premises appears to have had on the bottom line.

The move to a large, airy new factory in Glasgow – in which office space merges into manufacturing areas – has helped Barr & Stroud over the last couple of years cut its production lead times from 15 months to seven months, and raise the percentage of products delivered on time from a slovenly 10 per cent to 90 per cent. Last year it made an operating profit of £1.3m, its first since the late 1980s.

O'Neill admits that Barr & Stroud, owned 50-50 by Pilkington and the French company Thomson, was a product of the "featherbedded" defence industry, operating on cost-plus contracts. Before the move it was housed in Edwardian plants in Anniesland, Glasgow.

Initial efforts at transforming the company through computerisation faltered in the face of ingrained structures. "With computerisation alone the company would just have been automating inefficiency," *according to Mike* Ward of Andersen Consulting, which came in to advise Barr & Stroud on its transformation.

Just as the company realised it needed more sweeping changes, however, it sold its old site to Safeway for £14.5m and was able to commission a new £20m plant, designed by the architects Ryder Nicklin.

The reorganisation could consequently start again from scratch. "The move opened people's minds," says O'Neill. "They suddenly said: 'Why can't we do this or that?' We wouldn't have made half the productivity gains we've achieved if we'd stayed where we were."

The new factory, at Linthouse on the banks of the Clyde, employs 700 people, compared with the 2,100 who worked at Anniesland. Yet turnover between the years to March 1990 and March 1993 has gone down proportionately less than the workforce, falling from £62m to £52m.

From the start the company told staff it wanted to cut 800 jobs and achieve a single status factory, in which the main differential between employees would be their salary level. That meant reducing nine tiers of management to four, scrapping the six different grades of canteen in favour of one.

Not surprisingly, says O'Neill, "the biggest opposition to change came from middle management, because they were the group most threatened and were going to be decimated – what was happening really threatened their comfort zone".

O'Neill fired 22 of the 40 senior executives in early 1990 soon after taking over as managing director, "people who were not going to get on the train in the direction we were going".

He says he spelt out frankly to the workforce what was intended. "We gave them the bad news about the job losses first, then we listened to their ideas. If people don't take ownership of change, they won't change their behaviour."

Instead of the old hierarchical structure staff now work in 12 teams, each dedicated to specific projects. These include a civilian version of the company's thermal imaging equipment, used for spotting objects and people in the dark, which Barr & Stroud is selling to police forces.

Each team includes designers, production planners, materials purchasers and production controllers. Staff report to a team leader, rather a middle manager such as the head of the machine shop as they would have done previously. The four tiers of management consist of the managing director (O'Neill), the operations director (Lawrie Rumens), the team leaders and everyone else, from machinist to receptionist.

Rumens believes that as Barr & Stroud moves closer to its medium-term goal of achieving full computer integrated manufacturing, his job will disappear, reducing the four tiers to three.

Driving through change: Tom O'Neill (left) and Mike Ward, who are behind the transformation of the defence subcontractor

Barr & Stroud says a system under which seven trade unions each had negotiating rights has been reduced to a single bargaining group

Barr & Stroud has cut 1,400 jobs from its workforce in three big waves of redundancies and early retirement. The management dropped a compulsory redundancy programme after a two-day strike in late 1991 and all redundancies have been voluntary.

Stewart Ritchie, convener for the AEEU engineer's union, says the employees like the new working arrangements. The management, he says "are far more open than they used to be about what's going on".

The other big change which contributed strongly to cutting the workforce and the size of the company's operations was the switch to outsourcing most of its manufacturing. Here again, the move to new premises was an important catalyst.

In the old factory Barr & Stroud used to be vertically integrated, producing much of the metalwork and most of the electronic components for its products.

"We decided our strength was in designing and making systems," says O'Neill. "We wanted to concentrate on that and buy in the rest."

The machine shop was slimmed down to 30 people from 200, and the same staff reduction was achieved by the electronics section. Most electronic components are now made or assembled by the US company Hughes Microelectronics at Glenrothes, Fife, while optical components come from Pilkington Optronics' plant at St Asaph in North Wales. Machining is done by a company in the Isle of Man.

Now only 23 suppliers account for 60 per cent of all inputs – three years ago the company had more than 3,000 suppliers. By simplifying the manufacturing operation, stocks and work in progress have fallen from £22m to £7m.

Running the charity superleague

Alan Pike describes how the sector is trying to improve its management skills

For managers in the more frenzied reaches of the private sector, the idea of running a charity must feel like an invitation to retreat into monastic life.

Reality, however, is different. Charities may be driven by philanthropic motives, *but they face most* of the same financial and competitive pressures as commercial organisations.

Thousands of small, local charities will always depend on volunteers for their management. But government ambitions for the voluntary sector to become a large-scale provider of state-financed welfare services are encouraging moves towards an élite, super-league of big charities. Attention is increasingly focusing, therefore, on how these large, business-like organisations should meet their management needs.

A survey* by Ian Bruce, chief executive of the Royal National Institute for the Blind and director *of the Centre for Voluntary Sector* and Not-for-Profit Management (Volprof) at London's City University Business School, shows that charities rely heavily on outside recruitment to find many senior managers.

According to the study, 53 per cent of top managers in the biggest 200 charities came from outside the voluntary sector – 33 per cent from commercial organisations and 20 per cent from public-sector ones. The bigger the charity, the more likely it was to recruit its chief executive and senior directors from outside the sector.

"The survey asked only about individuals' last jobs," says Bruce. "Had we traced their careers further back, we should almost certainly have discovered an even higher proportion with backgrounds outside the voluntary sector."

The management needs of big charities are complex and it is therefore no surprise that they sometimes buy in specialist skills. "At the RNIB we are running schools and hotels, managing a £50m budget, employing 2,000 people, training and managing volunteers and providing services of acute importance to our clients," says Bruce.

"It is quite a managerial challenge, something that those people in the commercial sector who regard us as amateurs fail to appreciate."

Even so, he believes too many senior posts in big charities are filled by outside recruitment. "Some outside talent is obviously good and brings in new ideas. But if charities are recruiting a majority of their senior staff from outside it suggests they are not doing enough to train and promote their own middle managers. That is not good for staff morale or the long-term development of the sector."

Some charities take organised steps to develop managers internally – RNIB runs its own management training scheme with South Bank University – but his research suggests that the sector gives insufficient attention to management.

Volprof is undertaking a feasibility study to see whether this could be remedied by sector-wide training and development programmes. And the National Council for Voluntary Organisations this month set up a study group chaired by Bruce to consider whether a formal Industry Training Organisation for the voluntary sector should be established. The group will produce its recommendations early next year.

Another incentive for the voluntary sector to develop the talents of its own managers is that recruits from the commercial world are not always successful. "Some commercial managers cannot cope. They *tend to be the more inflexible* ones," says Bruce.

Bruce and his colleagues at Volprof have begun researching similarities and differences between managing in the two sectors. Diana Leat, Volprof visiting senior research fellow, believes many of the assumed differences between commercial and voluntary organisations are based on oversimplified views of both.

Rather than searching for differences between charities and commercial companies, she believes the starting point must be within individual organisations, regardless of the sector they are in. It is clearly unhelpful, she says in a Volprof report, to put ICI and a market stall in the same category just because they are both commercial organisations; similarly, Oxfam has little in common with a village playgroup. But, she adds: "It may be more illuminating to look at the similarities between, say, Apple and *Oxfam than* those between Apple and Pepsi."

In any case, believes Leat, we may be witnessing a convergence in management priorities between commercial and voluntary organisations to become more business-like – many resulting from public funding changes, with charities having to compete for contracts.

But, she suggests, there are equal pressures in the other direction, with some characteristics more familiar to the voluntary sector becoming increasingly essential to the success of modern commercial organisations.

**Managing Across Sectors, £9.50, City University Business School.*

BUSINESS AND THE ENVIRONMENT

Environmental advice is becoming big business, but there are calls for higher standards, says **Andrew Jack**

Put to the green test

When Falkirk District Council hired a consultant four years ago to assess the environmental impact of a proposed asbestos disposal site, the report it received was far from comprehensive.

In exchange for their fee, officials were sent a meagre two pages of text and a couple of low-quality maps of the area under examination. It was hardly the basis for a detailed assessment of the risks to the soil and water, the level of treatment of the waste or a consideration of alternative uses for the land.

As legislative requirements and voluntary pressures have forced companies and government agencies to take environmental issues seriously, demand has grown for consultants to help meet their needs.

But the last few months have also brought growing calls for improved quality from these consultants, as bitter experiences of the results take hold. Now professional bodies are beginning to respond.

Carl Fuller of the Institute of Environment Assessment, who regularly examines consultants' reports, says one of the most frequent problems is a lack of consideration of alternative options during a review.

Consultants often fail to identify weaknesses in proposals, ignore the way sites would change if a project did not proceed and make elementary errors such as conducting ecological surveys in December when there is little prospect of discovering the full range of fauna and flora in the area being surveyed.

His thoughts are supported by research conducted by Norman Lee of the environmental impact assessment centre at Manchester University.

Based on a sample of 85 of the 500 environmental statements in the UK prepared during 1988-91, he found a gradual improvement over time, but that even in 1990-91 two-fifths were still graded unsatisfactory (see table).

The demand for environmental consultancy is very large and partly externally imposed. Legal requirements such as the 1990 Environmental Protection Act, and other codes such as BS 7750, the British Standard on environmental management, and Emas, the EC's new ecological auditing and management scheme, are all playing a part.

A recent survey by Environmental Data Services identifies 339 entities which it recognises as environmental consultants, with billings of £400m. The institute's figures suggest the total of those using the label is nearer 700.

At the same time, there are no real barriers to entry and no regulatory or other official body to ensure that minimum standards are maintained.

The National Accreditation Council for Certification Bodies may examine those wishing to be verifiers of company environmental statements for Emas. But, in the far more lucrative market of general consulting, there is no such independent scrutiny.

"The whole environmental business has expanded very dramatically," says Chris Luck, a director of Environmental Resources Limited (ERL). "You become concerned about the maintenance of professional standards. There have been worries about how people will know whether they are going to get a good quality service."

Prime among the difficulties is the lack of adequately qualified staff. The institute has taken a lead in tackling this problem through the creation of the Environmental Auditors Registration Association scheme (Eara) last October, backed by industry, government bodies and consultancies.

Eara maintains a register of those individuals who have reached one of the three recognised levels of membership: provisional environmental auditor, environmental auditor and principal environmental auditor.

Registration at the different levels depends on achieving a certain number of points through professional and academic qualifications, training and practical experience. Principals must also submit a written dissertation on which they are orally examined. David Thompson, the scheme manager, says there have been more than 500 applications. He hopes that there will be more than 1,000 names on the register before the end of the year.

There are similar attempts to raise standards for businesses through the Association of Environmental Consultancies – which currently represents 28 of the larger firms in the industry. At the end of last month, the association finally ratified a code of practice and launched a registration scheme. Companies are subject to a review conducted by individuals from two or three other member consultancies, who look at systems and procedures. They are supported by a team from Imperial College, London who examine a sample of commercially-sensitive files on client work. There is a nominal £750 fee.

Those that pass or have only minor shortcomings will be audited again in a year, and then every two years. Those that require more work will be re-examined after six months.

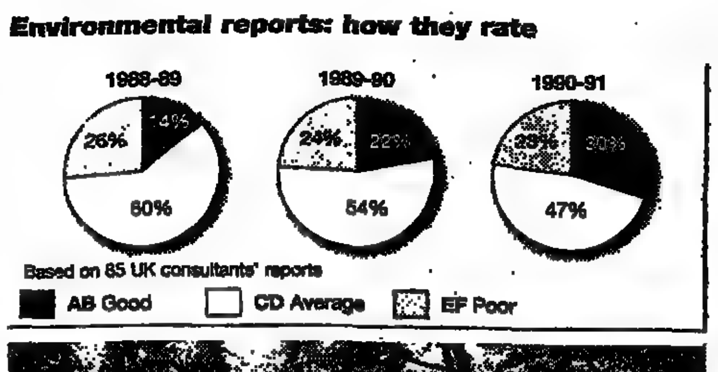
So far, 18 companies have been registered and can be expected to be audited by the end of March next year. "It is by no means a formality," says Geoff Mills, head of Gibb Environmental and chairman of the working group for the scheme. "There has been some real soul-searching from firms about applying. But this is not a cartel. We would love others to apply."

ERL was chosen as the guinea pig, and was visited last December. Luck says: "Overall the process worked pretty well. It served to confirm our approach and will ultimately enhance the quality of service we provide. We have mentioned our registration to clients and in proposals and it has certainly been very well received."

That leaves two questions. First, how far credibility in a system of self-regulation can be maintained. That may only be tested when the institute and the association have to police and take disciplinary action against members.

Second, whether in the absence of any formal legal requirements, the reputation and the profile of the two schemes will be sufficient to persuade potential customers to use those registered rather than the many continued fringe players who are not.

Environmental reports: how they rate



A	Relevant tasks well performed, no important tasks left incomplete
B	Generally satisfactory and complete, only minor omissions and/or inadequacies
C	Can be considered just satisfactory despite omissions and/or inadequacies
D	Parts are well attempted but must, as a whole, be considered just unsatisfactory because of omissions and/or inadequacies
E	Not satisfactory, significant omissions or inadequacies
F	Very unsatisfactory, important task(s) poorly done or not attempted

Source: Institute of Environmental Assessment

WORLDWIDE WATER

Problems of achieving higher standards

Bronwen Maddox takes a look at EC policy

IMPROVING the quality of water is one of the most ambitious parts of the European Commission's environmental policy. Yet, nearly two decades after some of the directives were passed, the Community is unable to tell whether countries are complying with the rules. At the same time, water shortages in Mediterranean countries are renewing pressure on standards.

The Commission has passed more than 200 "green" directives in the past 20 years but the regulations on bathing and drinking water and on treatment of waste and sewage have attracted more than their share of attention. Surveys have shown them to attract a high level of popular support in many member countries.

More rules may be in the pipeline: the Commission needs to decide whether to bring more chemicals under the regulation's scope and whether to incorporate a recent tightening of the World Health Organisation's guidelines on lead in drinking water.

Northern countries have, on the whole, complied with more of the rules than southern – or so the incomplete figures available suggest. DGXI, the Commission's environmental directorate, says it accepts that lack of data on implementation of the directives has been a handicap in enforcing them. It is up to national inspectors to sample the water, but the methods and extent of testing vary widely between countries.

Consumer surveys grading beaches make up some of the gap, water companies say, but are no substitute for systematic monitoring.

What is clear, however, is that the directives are among the most expensive to implement of all the "green" rules passed by the Commission. The UK's water industry, in the middle of a capital spending programme which could eventually top £45bn, estimates that half the sum is directly due to the EC directives. Meeting the new WHO lead guidelines – which would mean replacing miles of lead piping – could cost another £8bn, it says.

Ian Byatt, director general of Ofwat, the UK's water regulator, has argued that if the Commission keeps tightening the rules, water costs – and, in the UK, customers' bills – will be trapped on a never-ending upwards "escalator". That prospect has led Eureau, the group representing national water companies from all EC countries except Greece, to lobby for a revision to the standards, or at least restraint in setting new ones.

Janet Langdon, director of the UK Water Services Association, which represents the 10 large water and sewerage companies of England and Wales, also argues that European countries should have the right to set their own standards on the colour and taste of drinking water where there are no health implications.

There are signs that the Commission is taking the problem of enforcement seriously

The Commission's environment directorate plans to hold a seminar in September to discuss these issues. Although Eureau's members believe they had received a sympathetic response earlier in the year, several are no longer as confident.

Michael Swallow, director of the UK Water Companies Association which represents the smaller water supply companies, says: "We will be looking with interest to see whether they have departed from the precautionary principle" – the insistence that every trace of some substances, such as pesticides, should be removed even where a health risk is not proven. He adds: "The WHO guidelines for 32 pesticides are less stringent than the Commission's – we want to see how far the scientific basis will be recognised."

There are signs, though, that the Commission is taking the problem of enforcement seriously. The UK helped start up meetings of each countries' inspectors to help understand differences in monitoring methods.

Devising a workable route to higher standards is not the Community's only headache – water shortages loom, too. The European Commission published a report at the end of last year warning that economic growth in the EC will become constrained by lack of fresh water.

The report, by the Birmingham-based consultancy Ecotec, argues that the shortages will be most pronounced in Mediterranean countries, because of increased industrialisation and growing populations. But it also said that contamination of groundwater by industry and agriculture in industrialised and heavily-populated northern countries will add to the costs of growth.

The past decade has seen some improvement in pollution control, the Rhine and the Meuse, among the worst-affected rivers, have seen concentrations of lead, zinc, arsenic, copper and mercury fall. However, the environment directorate has conceded that the improvements are "disappointing" given the effort and money expended.

The result of Europe's pollution levels and high water standards, according to the Ecotec report, is that the average cost of water in Europe, Ecu0.66 per cu m, is some two to three times more expensive than in the US or in densely-populated Japan.

As EC countries become more alert to the rising cost of water and to the impact on their competitiveness, it may force the Commission's environment directorate to pick its targets more carefully and consider the economic consequences more thoroughly than it has done in the past.

This concludes the series. Previous articles appeared on May 5, April 28, 21, 14, 7, March 31, 24, 17.

PEOPLE

Greener shoots up at BAT

BAT Industries is hoping to strengthen its clout in the insurance world by giving George Greener, chairman and chief executive of Allied Dunbar, responsibility for its other insurance subsidiary Eagle Star as well.

The move follows the promotion of Martin Broughton, previously chairman of Eagle Star, to the position of group chief executive and deputy chairman of BAT from the beginning of last month.

Broughton remains managing director of the group's financial services business, with Greener, now in charge of the whole of the UK, and Leo Denlea who runs Farmers in the US, both reporting in to him.

BAT says the elevation of Greener, who joined in 1991 after a 20-year career with Mars, to the position of chairman of Eagle Star Holdings reflects the belief that a more co-ordinated approach will give the group greater muscle at a time of considerable regulatory upheaval in the industry, particularly in the life insurance area.

"We believe people will take more notice of us if we are number four in the market than if we are, separately, both the wrong side of ten" BAT commented yesterday. Allied Dunbar and Eagle Star's combined premium income gives the group a 6 per cent share of the UK life, investment and pensions market.

The group also hopes that the new format will increase its chances of success in the international arena. ""We were beginning to find potential international partners were unclear as to which bit of the group they would fit into. Now there is one person for them to talk to" a BAT spokesman added.

In the past, the ethos of the two operations could not have been more different, with the brash Allied Dunbar sales technique contrasting sharply with the more traditional approach of Eagle Star. Now both are moving towards a multi-channel distribution strategy.

Moreover, BAT believes that whereas Allied Dunbar had been "so focused on its sales drive that it had rather lost sight of its market" one of Greener's achievements has been to redress that balance.

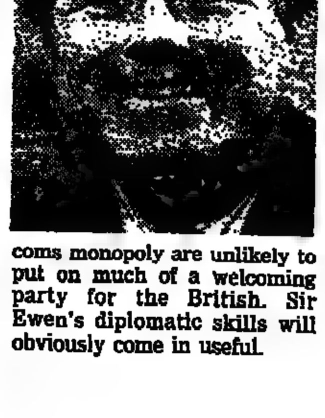
Meanwhile, Clive Coates, finance director of Eagle Star, is promoted to deputy chairman, while Sandy Leitch, deputy chairman and managing director of Allied Dunbar, becomes its chief executive.

The appointment of Sir Ewen Fergusson, Britain's Ambassador to France until last year, to the board of BT as a non-executive director, is more than just another lucrative pension for a retired senior diplomat.

High on the list of BT's current ambitions is to break into the closed world of Europe's state-owned posts and telecommunications monopolies.

Britain has long been banging on the Brussels door to get the liberalisation process moving. This week it appears to have got a commitment that most of the Community's telephone calls will be open to competition by 1998.

So BT will soon need all the "gen" it can get on the European scene, not least in France, whose government and telecoms monopoly are unlikely to put on much of a welcoming party for the British. Sir Ewen's diplomatic skills will obviously come in useful.



Benson picks up Costain

Costain, the UK construction group, yesterday moved to strengthen its board further with the appointment of Sir Christopher Benson as chairman.

Sir Christopher, 59, is chairman of Boots the retailer and chairman until July of MEPC property group. He is also chairman designate of Sun Alliance.

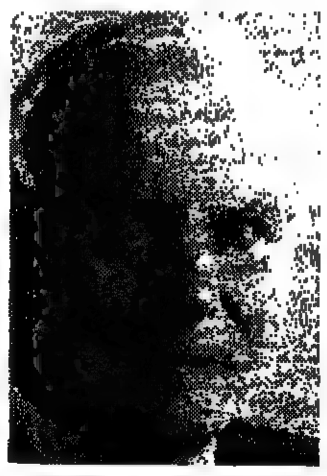
He takes over in June as chairman of Costain succeeding Peter Sawdy, 61, who has been chairman for two and a half years during one of the most difficult periods the group has faced.

The company last year made a £148.6m pre-tax loss after making further substantial provisions against its housing and commercial property operations.

In a bid to reduce its large debts, Costain recently sold its Australian mining operations to Peabody Resources, part of Hanson, the Anglo-American conglomerate, in a deal worth £198m.

Costain has also received several approaches from potential purchasers for its loss-making UK housebuilding operations.

It is thought to have wanted to appoint a high profile chairman to help chief executive Peter Costain and a new management team reduce the company's debt further and restore its fortunes.



The appointment follows the replacement of a number of senior executives including Tom Slee, the former finance director, and Gordon Haworth, main board director responsible for American operations. Keith Egerton, director responsible for commercial property operations, also left the group following Costain's decision to retreat from that sector.

Invesco in hiring mode

After the exodus of recent weeks, Invesco MIM yesterday announced a handful of senior appointments which confirm once again the steadily increasinging American influence on the still UK-listed fund manager.

Significantly, the new chief financial officer is American Hubert Harris, who joined Invesco in 1988 and is currently president of Invesco Services. He replaces Ratan Engineer, the London-based finance director who left in April. Harris was assistant director of the Office of Management and Budget in Washington back in the Carter administration. Prior to that he worked at Citizens and Southern, the bank where executive chairman Charles Brady and others started before setting Invesco up. He is well plugged into the Atlanta, Georgia community, from where Brady operates: Harris is on the board of trustees of Georgia State University as well as a member of the advisory board of the Atlanta committee for the Olympics.

Invesco has also brought another American non-executive onto the board following the appointment of Sandy White last November. He is Bevis Longstreth, a former SEC commissioner and currently a partner with law firm Debevoise & Plimpton.

Meanwhile Norman Riddle, newly appointed head of the European businesses, has brought in James Robertson from his previous stable Capital House. Robertson, who becomes finance director for the European division, had worked with Riddell in building up Capital House, the fund management subsidiary of Royal Bank of Scotland, as director of finance and corporate development. He qualified as a chartered accountant with Arthur Andersen before joining the corporate finance department of Charterhouse merchant bank.

■ Martin Gray, chief executive of the bank's UK branch business, joins the board of NATIONAL WESTMINSTER BANK.

Television/**Brian Wenham**

BBC governors skate on thin ice

The BBC governors ought to be worried men and women. At the end of last year their charter renewal process seemed to be going swimmingly. Government had broadly endorsed the continuation of the status quo. The BBC countered with a promise of ever-extending choice, within a more accountable organisation. But now fault-lines are emerging, and look set to deepen.

The reverberating row about top BBC salaries refuses to die down. Traditionally, these payments were loosely linked to the top end of the civil service. This financial year top civil servant rates, Sir Robin Butler and Sir Terry Burns apart, are a shade over £90,000. The BBC is now being credited with *doubling* those monies. So, governors have plainly brought the old policy to an end. What then is the new? And on what principles is it based?

There is double *danger for governors* if they cite competitive pressure in the market. In the first place, being led by the nose by what others do is a recipe for broadcast inflation without end. Secondly, whenever the BBC too cheerfully bends a knee to the market, then it calls in question the special "non-market" funding protection offered by the licence fee.

Remember *too* that the licence fee is pegged to the Retail Price Index, as the bulk of the BBC workforce knows only too well. An unexplained fattening of differentials at the top therefore makes general staff relations ever more edgy.

The governors would be wrong to hope *that this* problem will simply go away. Commentators will hang on each and every emerging annual report for the next twist in the story. *If* governors are regularly to be damned, there is a case for their publishing details of their salary policy now, in full, and putting their trust in public understanding. By chance the matching row over the LWT share scheme gives them a neat opportunity, not – it is to be hoped – for making irrelevant comparisons, but simply in offering covering fire.

A *full* explanation would give some substance to the governors' promise of "openness," of which so far there is little sign. Rather the governors dumbly close ranks when under fire, and so weaken any claim that they are genuinely independent, or representative of the broad public interest.

The obvious cosiness between governors and its appointed management has inevitably emboldened others to seek to usurp the governors' function. So, both the ITC and the Radio Authority made a mark with proposals that they might take under their wing the relevant BBC services, thus reducing the BBC to but one client licence-holder among many others. It should be disturbing to BBC governors that they have left the Corporation wide open to takeover bids of this sort.

The governors need to be seen to stand back and govern, *which means* giving management the necessary steer. Fortunately, opportunity is at hand. By now, reports from public meetings should have convinced any open-minded governors that the scheme for a Long Wave Rolling Radio News has little listener support, and continues to arouse special hostility among adherents to Radio Four. The governors *have already said the scheme is on* hold until reception of Radio Four on FM can be improved to listener satisfaction.

They will now know that this too cannot be delivered except at exorbitant cost. Yet BBC management continues to turn a deaf ear. If "accountability" has any meaning, then the accountable governors should require their management to put the scheme to one side.

The BBC should press to retain an ability to offer extended commentary by way of a split service when occasion demands, as it did in the Gulf and as it may soon over Bosnia. This sort of editorial imperative is something listeners understand and *accept. But the broader expansion into* what would be a sixth free-standing network finds no following wind among the public, and will create a running sore if pressed.

Greater long-term anxieties attend BBC management's introduction of what is known as Producer Choice, setting in place an internal market of great complexity and arguable value. It would be wrong to assume that BBC staff are wholly hostile to these new mechanics; best intelligence is that one third are wide-eyed believers, one third sullen sceptics, and one third bemused agnostics. What concerns all three groups, and should concern the viewers and listeners they *serve*, is that the process be seen to be independently assessed, so that sensible modifications can be put in place and benefits properly verified, not simply asserted. Here again is natural governor business.

Unfortunately the recent record again gives pause. As part of the warm-up for the new arrangements, £60 million or more of television monies went unaccounted for. A gubernatorial explanation was promised but has yet to arrive. There is also a stubborn reluctance to come clean about the set-up costs for the new system, or for the monitoring of the system once in place.

Yet, as the press now reminds us almost daily, the BBC is gaily recruiting systems-minder after systems-minder, a massive buildup of what must surely count as "non-core" activity. Little wonder that the sceptics remain convinced that the whole exercise is designed not to save money but to force a casualisation of programme-making staff. Sceptics would further argue that the internal pricing is skewed to that end.

The governors need to take these charges seriously. They have businessmen in their number well-equipped to take a quizzical look, spot where the new systems may be unproductively overburdensome, and then give the public a balanced assessment. It would be useful too to have *at this early stage* some idea of the expected outturn in terms of savings and operational efficiency.

In the broad, are we to assume that the changes will prove themselves by enabling the BBC to live comfortably within its pegged licence fee throughout the next charter period? That high prize might be *worth the fuss*. Or, *at the end of the* exercise, will we be surprised by a supplementary bill? If that turns out to be the end game, then the licence-payers may well be moved to disbelieve *grandiose* management claims. And the BBC and its governors will be skating on extremely thin ice.

Christopher Dunkley is on holiday. Brian Wenham was on the staff of the BBC 1969-1987, and is now on the Board of Carlton Television.

Opera/**David Murray**

'Otello' revived

Elijah Moshinsky's production of Verdi's opera, re-staged now by Richard Gregson, has established itself as a durable treasure of the Royal Opera repertoire. It looks imposing, though it has no tricks that grow stale (the opening tempest still dazzles with Robert Bryan's lighting); it sets a credible time and place compactly and thriftily; it wastes *no time – one modest* interval between the middle acts, the merest pauses elsewhere. On Monday its fourth revival, with all the principals drawn from previous casts, gave resounding satisfaction.

"Resounding" in particular because the Otello was again the Russian tenor Vladimir Atlantov, whose forte is *fortissimo*; for the July 18 concert-performance by the lake at Kenwood, *he will need no* microphones. Not long ago I heard him in the role in Vienna, where he sang wildly, if sometimes thrillingly, and barely interacted with his Desdemona and Iago. At Covent Garden, with sharply purposeful conducting by Edward Downes, he was better tuned and rather less self-absorbed. It *remains a broad*, extrovert performance – far removed from Domingo's anguished subtleties with Carlos Kleiber in the pit (*worlds* away, in the "Dio! mi potevi scagliar" soliloquy), but honestly stirring in its own terms.

His Desdemona was the *lovely Katia Ricciarelli*, still a radiant, unsurpassable icon of innocent goodness. The vocal problems of recent years have melted away; the "beat" in the voice is safely under control, and warmly affecting. Her soprano glows with a new maturity, if not the reckless generosity of her early career. On the modern stage sheer goodness is not a plausible commodity, but Ricciarelli's *natural grace, spontaneity and* dignity carry it off and seize one's heart.

Like this heroine, Justino Diaz's Iago was captured by Zeffirelli for his film of the opera – and was, I suspect, enhanced by the experience. It is not a flamboyant study in villainy, nor does it brandish the dark-grained weight of the *Diaz* baritone. (In the roaring duet with Otello, indeed, he sang his first verse more or less to his knees, an odd thing to do.) But plain, subtle details accumulate and soon a formidably troubled character comes into focus, without melodramatic signalling of the kind few Iagos can resist.

Sterling work from the lesser principals, among whom I will mention invidiously Robin Leggate's *ever-upstanding Cassio*, Anne Mason's alert Emilia and the precocious Ambassador of Peter Rose, who lends to his all-but-faceless role the solid bottom that it needs for the drama. For the chorus *Otello* sets strenuous tests, all of which the Royal Opera forces *passed with flying colours*. I still think that the choir of "Cypriot" boys (this time from Chorley Wood) is excessively tow-headed, but it is not a point to fret over.

Sponsored (1987) by Morgan Grenfell Group plc

Alastair Muir

Justino Diaz and Vladimir Atlantov as Iago and Otello, new to Elijah Moshinsky's production at Covent Garden

Concert/**Antony Thorncroft**

Kodo Drummers

There was always a nadir during the rock concerts of the 1970s known as the drummer's solo. It was totally *unavoidable and totally boring*; around 15 minutes of thrashing and flailing which ended with the drummer throwing his sticks at the audience and pouring a bottle of water over his head.

The Kodo Drummers perform for around two hours and fifteen minutes, and pose a different problem. Their drumming is unmatchable; you appreciate the subtlety and imagination that drives each item. You readily believe that such precision and commitment can only be attained after a routine of training which makes SAS manouevres seem like a cake walk.

But for some people the drum *is not the most melodic* of instruments; not the most lyrical. It stirs the blood rather than the soul. After the first Kodo number, when the 12 drummers build up a wall of sound that makes your thighs resonate and your ear drums ache, you doubt the pleasure principle.

Wisely the troupe knows the weakly western constitution and intersperses the drumming with delicate solos and duets on traditional Japanese instruments which tend to confirm that folk music throughout the world is inevitably *wistful* and melancholic.

But it is for the drummer boys that the audience whoops and cheers, especially when the pressure of work strips them down to loin cloths. Like virtually all Japanese art forms these drummers from the *island of Sado are* totally outside European experience and reference. The dedication, the training, the physical perfection beat out as loudly as the drums – or as softly, as they manipulate the skins with masterful control.

It is hardly music; more a primitive romance with rhythm. Often they pose like young Samurai, treating their drums as worthy opponents. You wait for the biggest drum, the 800 pounder, to be brought out, before which the drummers undress and lie down, and then raise sticks as large as baseball clubs to pound it to death.

Some of the asceticism has worn away from the drummers during their interminable international tour. Their faces are less inscrutable; *more baleful; almost* self-satisfied. This is spectacle, entertainment, which must greatly delight anyone interested in drumming techniques but cause many British people to sit in respectful boredom.

Sadler's Wells until May 15. 071 278 8916

Opera in Madison, Wisconsin

'Shining Brow': a tribute to Frank Lloyd Wright

Madison, Wisconsin, is a city one might compare with, say, Worcester for its size, for the way it is dominated by one spectacularly sited piece of architecture (the high domed state capitol on a hill between lakes), for the snare of its one-way system, and for its unlikeliness as a springboard for new opera. Hitherto the local company has put on a couple of productions each season: usually a favourite opera and a musical.

But a *few* years ago some proud and tenacious residents got it into their heads that Madison Opera ought to present a new piece on the subject *of Madison's most famous son*, or stepson, Frank Lloyd Wright, who attended high school and college in the city. The next step was to find a Wisconsin composer to do the job. And because Daron Aric Hagen, the eventual choice, was staying at an artists' *retreat in the company of* Paul Muldoon when he received the call, Madison's dream began to become real in Muldoon's words.

The resulting libretto is a curious and fascinating piece of work, as lopsided and quaint and wondrous as anything created by Wright himself. There are phrases, and sometimes whole miniature scenes, that are, as Muldoon has bemusedly said, more direct than anything he might have done without the cover of music. When, for instance, Wright is confronted by slavering reporters and prudish neighbours on his *return from Europe* with his mistress Mamah Cheney, he speaks to himself in the most everyday language: "The truth is that I feel nothing, not the merest hint of remorse. Not a pang of guilt." The brandy-doused resentment of Louis Sullivan, Wright's erstwhile *mentor, is also expressed* plainly and forcefully, and there are little moments of social comedy in what the chorus have to do.

On the other hand, many passages are deeply underlaid with allusion or, more commonly, with subtleties of metre, rhyme and assonance. Mamah in Berlin has a long solo in terza rima and Muldoon proves himself a virtuoso in the da Ponte-ish trickery of enabling different people to sing different things simultaneously in similar sounds. Most conspicuously of all, his libretto is full of words and images that repeat themselves from mouth to mouth, so that the individualities needed for characterisation – and, to a degree, plot – are eroded by echoings.

"I know, I know, I know, I know, I know" is the simplest of these verbal tics, its echoings echoed in turn by those of other keywords: "kowtow", "brow" *(Shining Brow*, the opera's title, is a translation of the bard's *name* Wright gave to the house he built for himself and Mamah: Taliesin). "I know, I know." There is nothing new. The people of the libretto – moments of baldness or wit aside – seem to be caught up in a cat's cradle of words: of words put into their mouths, of words which have their own lives, meandering from mouth to mouth. *Tides of* words take the piece on; who speaks or sings them is irrelevant.

The one character who has his own words is Carleton, the black chef at Taliesin, whose hot utterance springs across the gap from ecstatic African-American preaching to the Welshness of Wright's ancestry and of Muldoon's immediately preceding poetic work: "I am the hart. I am the hind. I am the green and burning tree. I am the cloud no bigger than a hand. I will go down in history." It is Carleton who, on the plot level, is responsible for the final catastrophe, the burning of Taliesin with *Mamah* and her children inside, and who, below the plot, challenges the other characters with the certainty and uniqueness of his language.

Significantly, this language is spoken – or, rather, declaimed – not sung, while *the orchestra stays silent. The* composer's nobility is to leave Carleton's self-statement outside the purlieu of music which oddly thrusts this sophisticated libretto into a world compounded of Broadway, *Peter Grimes* and *Der Rosenkavalier*. The dedication *of the score to the memory of* Leonard Bernstein is apt.

In the performance, everything that enthusiasm could do was done. Roland Johnson conducted a vigorous and spirited orchestra; the cast was led by Michael Sokol in the lyric baritone role of Wright, *intrepidly seeking* himself through the always confounding maze of words, with Carolann Page as Mamah and the tenor Barry Busse splendid and vituperative in disarray as Sullivan. Stephen Wadsworth's direction and David Birn's sets understandably opted for straightforward clarity.

Paul Griffiths

INTERNATIONAL ARTS GUIDE

BONN

Oper Tonight and next Wed: Puccini's Trittico staged by three women directors. Tomorrow: Der Freischütz. Fri and next Tues: Valery Panov's production of the Prokofiev ballet Romeo and Juliet. Sat: Otello. Sun: Gian-Carlo del Monaco's new production of Cav and Pag with René Kollo and Monte Jaffe. Mon: Ferruccio Furlanetto song recital (773667)

COLOGNE

Philharmonie Tonight *and Fri*: Cherubini Quartet plays Beethoven. Tomorrow: Giuseppe Sinopoli conducts Philharmonia Orchestra in Brahms' Second *and Fourth* Symphonies. Sun morning, Mon and Tues evening: Dennis Russell Davies conducts Gürzenich Orchestra in works *by Haydn*, Khachaturian and William Bolcom. Sun afternoon: Thomas Zehetmair violin recital. Sun evening: Cologne Youth Orchestra *plays* Beethoven's Ninth. Next Wed: Saint Paul Chamber Orchestra (2801)

Opernhaus Tonight and Sun: Katya Kabanova with Nadine Secunde and Leonie Rysanek. Tomorrow: TanzForum triple bill, choreographies by Jochen Ulrich. Fri: Der Rosenkavalier with Margaret Marshall, Dolores Ziegler and Günter von Kannen. *Sat and next Wed*: Entführung (221 8400)

COPENHAGEN

Tivoli Tonight: Jin Wang conducts Danish Radio Symphony Orchestra in works by Stravinsky, Schierbeck and Tchaikovsky, with *flute* soloist Pia Hansen. Tomorrow: Kees Bakels conducts Tivoli Symphony Orchestra in works by Glinka, Tchaikovsky *and Nielsen, with piano* soloist Ivo Pogorelich. Fri: Pogorelich piano recital. Sat: Bakels conducts Dvorak, Nielsen and Mozart, with violin soloist Nikolai Szeps-Znaider. Sun: Radio Chorus and soloists including Tina Kiberg in songs by Richard Strauss. Mon: Tamas Vetö conducts DRSO in Grieg, Dvorak and Nielsen, with cello soloist Truls Mork. There are concerts on most evenings throughout the summer (3315 1012) **Royal Theatre** Tonight, next Wed: Mahagonny. Fri: La traviata. *Sat*: Tosca. Next Tues: Drot og Marsk, Danish historical opera. Season ends on May 22 (3314 1002)

DUSSELDORF

Deutsche Oper am Rhein Tonight and next *Tues: Goldberg Variations*, ballet by Heinz Spoerli. Tomorrow: La fille mal gardée. Fri: Swan Lake. Sat: Spoerli's new Giselle *production*. Sun: My Fair Lady (211-8908 211). Duisburg Theatre has Salome on Sat and Die lustigen Weiber von Windsor on Sun (203-3009 100)

FRANKFURT

Alte Oper Sat: Giuseppe Sinopoli *conducts* Philharmonia Orchestra in Brahms' Second and Fourth Symphonies. Sun morning, Mon evening: Christoph Eschenbach and Tzimon Barto alternate as conductor and *soloist in Brahms'* two piano concertos, with Frankfurt Opera Orchestra. Sun evening: John Adams conducts a programme including his Chamber Symphony (1340 400)
Jahrhunderthalle Hoechst Sat and Sun: Kirov Ballet mixed bill. Next Wed: Mikhail Baryshnikov's White Oak Dance Project (3601 240)
Opernhaus Tomorrow: Aribert Reimann's opera Troades. Sat: Rigoletto. Sun: William Forsythe's ballet Slingerland (236061)
Schauspielhaus Tomorrow: first night of new production of Schiller's Don Karlos, directed by Wolfgang Engel. *Repertory also includes* Schnitzler's Undiscovered Country, Shakespeare's Othello and Sophocles' Antigone (2123 7444)

LEIPZIG

Opernhaus The opening *productions* of the Leipzig Opera's 300th anniversary celebrations are Boris Godunov staged by Istvan Szabo (tonight and Sat), a ballet evening choreographed by Uwe Scholz (tomorrow) and Rameau's Hippolyte et Aricie (next Wed). Repertory also includes Lohengrin on Fri, Krenek's Jonny spielt auf on Sat, Maderna's Satyricon on Mon and Busoni's Doktor Faust on Tues (7168 273)
Gewandhaus Tomorrow and Fri: Kurt *Masur* conducts Gewandhaus Orchestra in Rakhmaninov's Third Piano Concerto (Peter Rösel) and the Gorchakov orchestration of Musorgsky's Pictures from an Exhibition. Sat: Walter Berry song recital. Mon: Horst Förster conducts Academic Orchestra in works by Schumann, Tchaikovsky and *Brahms. Tues: Virtuosi Saxoniae* play Fasch, Telemann and Bach (7132 280)

GOTHENBURG

Konserthuset Tonight, tomorrow: Neeme Järvi conducts Gothenburg Symphony Orchestra in popular works by Weber, Brahms, Suppé and others. Next Wed: concert performance of Carmen (167000)
Stora Teatern Fri, Sun, Tues: Robin *Stapleton conducts Francesca* Zambello's production of Falstaff, with Ingvar Wixell. Four further performances till June 5 (131300)

HAMBURG

Staatsoper Tonight, Sat, Tues: Claus Peter Flor conducts Johannes Schaaf's new production of Entführung, with Schaaf as the Pasha. Tomorrow and Fri: John Neumeier's ballet on Mahler's Third Symphony. Sun: four choreographies by Mats Ek and Lar Lubovitch. Next Wed: Madama Butterfly (351721)

LYON

Lyon's Opéra, reconstructed at a cost of US$90m to a design by Jean Nouvel, opens its doors on Fri with the world premiere of Debussy's Rodrigue et Chimène, conducted *by Kent Nagano, staged* by Georges Lavaudant and designed by Jean-Pierre Vergier, with a cast including Jules Bastin, Laurence Dale and Jean-Philippe Courtis (repeated May 23, 29, June 3, 5). The opening festivities also include new productions of Les Contes d'Hoffmann conducted by Nagano, *staged* by Louis Erlo, *with* Galvez Vallejo, Gabriel Bacquier, Barbara Hendricks and José van Dam (May 15, 21, 24, 27, 30); Delibes' Coppelia choreographed by Maguy Marin (May 16, 22, 28, June 4, 7, 8); and Lully's Phaéton, conducted by Marc Minkowski and produced by Larine Saporta (May 20, 26, 31, June 1, 6). Mstislav Rostropovich gives a cello recital on Sun (7828 0960)

MUNICH

Cuvilliés-Theater Tonight: Kenneth Riegel song recital (221316)
Deutsches Theater Tonight: opening of two-week run of Rigoletto with young Italian singers (5523 4360)
Prinzregententheater Tomorrow evening, Sun morning: Peter Schneider conducts Bavarian State Orchestra in works by Haydn, Richard Strauss and Shostakovich, with soprano Cheryl Studer. Fri, Sat, next Tues, Wed: members of Bavarian State Ballet dance their own choreographies (221316)
Herkulessaal der Residenz Fri, Sat: Riccardo Muti conducts Bavarian Radio Symphony Orchestra in symphonies by *Mozart* and Schumann. Mon: Heinrich Schiff conducts Deutsche Kammerphilharmonie in Rihm, Scelsi and Beethoven. Tues: Mischa Maisky cello recital (299901)
Gasteig Fri: Konstantin Scherbakov piano recital (4809 8614)

STOCKHOLM

Berwaldhallen Tonight: Sylvain Cambreling conducts Swedish Radio Symphony Orchestra in works by Ravel, Berg and Beethoven. Sat afternoon: Cambreling conducts Ravel, Larsson and Messiaen (784 1800)
Royal Opera Fri, Sat, Mon, Tues: Beryl Grey's production of Sleeping Beauty (248240)

STRASBOURG

Théâtre Municipal *Tomorrow* and Fri: Friedrich Haider conducts two concerts devoted to orchestral songs of Richard Strauss, with soloists including *Alessandra* Marc, Vinson Cole, Bernd Weikl and Sabine Hass (8875 4823)

STUTTGART

Staatstheater There are two Ruth Berghaus *productions* on *show* this week: Mahagonny tonight in a staging revived from last season, and a new production of La traviata *tomorrow and next Wed. Repertory* includes Die Zauberflöte on Fri and a mixed bill of choreographies by Zanella and Béjart on Sat and next Tues (221795)

European Cable and Satellite Business TV
(All times are Central European Time)
MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; *0130*
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: *West of* Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Arts Guide
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandanavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

Edward Mortimer

Twin track to Bosnia peace

Air attacks and military aid are complementary, not alternatives

Many readers are suffering from Bosnia fatigue. "I know it's terrible," they say, "but things are just as bad in Armenia, Abkhazia, Tajikistan and a lot worse in Sudan. Why do you go on about it?"

I go on about it not primarily for moral reasons but because I believe the security of Europe is threatened by the failure of European states to act on the principles they proclaim.

Czechs and Slovaks, Russians and Ukrainians have shown that a federal state can be dissolved without bloodshed. But the chances of it happening in Yugoslavia were never good. Too many Serbs had drawn, from a selective reading of history, the conclusion that they would never be safe unless they all lived in one state. They were ready from the start to fight rather than accept the secession of Croatia or Bosnia-Hercegovina. Recognition of those states was therefore a cruel deception, unless the recognisers were able and willing to deter the Serbs from reacting with violence.

But it is no use crying over spilt milk. The question is what to do now. So far the Serbs have succeeded, by being better armed and more ruthless than their opponents, in seizing control of most of the territory where Serbs lived – even where they were a minority – and "cleansing" it of other ethnic groups. This has created an unmanageable refugee problem, reminiscent in too many ways of the Palestinian one, and has set an appalling precedent for ethnic or national leaders elsewhere in central and eastern Europe. It must not be allowed to stand.

The Vance-Owen plan accepts the Serb logic, since it divides Bosnia-Hercegovina into provinces all but one of which would be dominated by one ethnic group. But it attempts to apply that logic more fairly than the Serbs themselves have done.

The Bosnian Serbs do not like the plan because the provinces it assigns to them would not all be contiguous, either with each other or with Serbia proper; and because it requires them to withdraw from territory they now control, leaving some of their homes under "alien" domination. In those areas, they naturally fear, it would be their turn to be "ethnically cleansed".

The Bosnian Croats like the plan because it puts almost all their homes under their own political control. They have already set about making sure of that by doing some "ethnic cleansing" of their own.

The Moslems do not like the plan at all. It leaves them, the largest group, with the smallest area. The plan would give them back some of the territory they have lost, but would

The Bosnian Serbs should be given one last chance to accept the Vance-Owen plan

still leave many of their homes outside their political control. Their chances of returning to those homes would be slim.

Still, the Moslems have accepted the plan because it is their only chance of getting international support. They too have been driven to accept the Serb logic, and start "cleansing" some of the areas they control.

Mr Slobodan Milosevic, the Serbian president, has suddenly emerged as a "goody" because he wants the Bosnian Serbs to accept the plan, as he wanted the Croatian Serbs to accept the Vance plan in January 1992. He does not expect either plan to be implemented, but hopes that a ceasefire now would get the international community off his back, while enabling the Bosnian Serbs to consolidate their gains (as the Croatian Serbs have done).

Having got so far, the "international community" (meaning the west egged on by Moslem and other non-aligned states, dragging Russia nervously in its wake) should take Mr Milosevic at his word. He says he is cutting off all but humanitarian aid to the Bosnian Serbs.

The United Nations should respond by placing monitors all along the Yugoslav-Bosnian border and keeping them there until the Bosnian Serbs have not only signed the Vance-Owen plan but implemented it.

Failing that, the military option is the only one. It need not imply putting more external troops on the ground. It may even require withdrawing those troops that are now there, since it certainly requires dropping any idea that they are neutral. The military option means giving Bosnia the means to defend itself: a fundamental right of any state, consecrated by Article 51 of the United Nations Charter. While the weapons are being flown in, Nato air power should be used to prevent the Serbs from launching an all-out assault.

At last, it seems, those two actions – arming the Bosnian government forces, and air attacks on their opponents – are seen in Washington, if not yet in European capitals, as complementing each other, not as alternatives. That is vital, because neither by itself is likely to achieve what must be the objective: the defeat of those, whether Serb or Croat, who seek the partition of Bosnia.

If the Bosnian Serbs could be convinced that this strategy was really about to be put into force, they might well promptly accept the Vance-Owen plan as (from their point of view) the lesser evil. They should be given a last chance to do so. But once the military strategy went into action the plan should be dropped.

Abraham Lincoln did not challenge slavery south of the Mason-Dixon line so long as there was a hope of avoiding secession. But once Americans were fighting and dying to keep the country together, he proclaimed emancipation of the slaves throughout the union.

Similarly, the Vance-Owen plan can be defended as an alternative to war, but not as a war aim. If the war is to go on, the only acceptable outcome is one allowing all Bosnian citizens to return home freely and in safety.

Guy de Jonquières on a clash between two competing retailing strategies for the 1990s

Price war is not just skin deep

For British holidaymakers, safe summer tans will be a lot cheaper this year, thanks to the recent outbreak of price discounts on suncare products. But for some of Britain's biggest retailers, the competitive pressures which have led to the price battle threaten to keep turning up the heat long after summer ends.

Though other retailers such as Tesco, the supermarket group, have joined in, the real battle is between two protagonists: Boots, the country's largest chemists chain, and Superdrug, the fast-growing discount drugstore company which triggered hostilities by cutting branded suncare prices by 25 per cent two weeks ago.

This is Superdrug's second headline-grabbing price offensive in 18 months and follows its decision to discount fragrances by up to 30 per cent at 42 of its 680 stores. Heavy lobbying by Superdrug has also prompted a Monopolies and Mergers Commission inquiry into the distribution practices of perfume manufacturers, which refuse to supply the company directly.

Though Boots has matched the perfume price cuts, it has done so gradually and only in outlets near Superdrug stores which sell fragrances. Its response in suncare products has been much more decisive. Days after Superdrug acted, Boots announced 30 per cent price cuts in all its 1,100 stores.

The speed and scale of its reaction were deliberate. "One reason we have taken a high profile this time is to send a clear signal that we care about our market share," says Mr Gordon Hourston, managing director of Boots The Chemists (BTC), the division of the Nottingham-based group which operates the high-street stores.

At stake are much more than Boots' 47 per cent of the £110m UK suncare market and Superdrug's goal of doubling its share to 16 per cent this year. BTC points out in any case that suncare provides less than 2 per cent of its turnover and says it is confident of offsetting lower margins through higher sales volumes.

Far more worrying for Boots is the risk that if price battles of this kind proliferate, they will reinforce the impression among consumers – already detected by the company's market research – that its prices are too high and its profit margins too fat.

Superdrug is adept at exploiting that impression. Not only has it won valuable free publicity by skilfully posing as a consumer champion; it misses no opportunity to portray its larger rival as greedy. "In markets such as vitamins, photographic film or cosmetics, where Boots' share is 30 per cent or more, its margins are sky-high," says Mr Geoff Brady, Superdrug's marketing director.

Behind the knock-about rhetoric and PR stunts, though, lies a genuine clash between two business philosophies based on sharply different beliefs about what retailers need to do to prosper in the 1990s.

Boots is widely admired for its professionalism and, in particular, its effective use of sophisticated electronic information systems to manage the supply chain, keep tight control of stocks and analyse the sales and profit performance of each of its product lines.

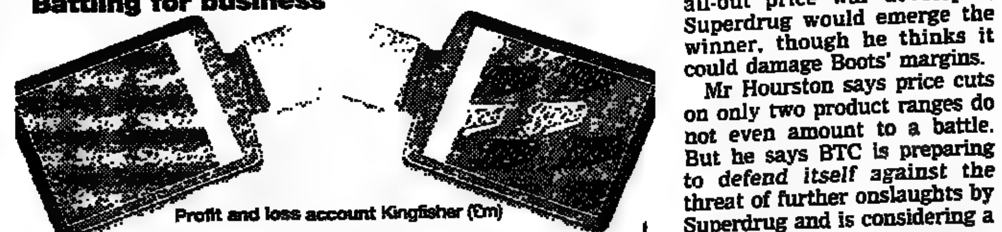
The company is proud of its record in using the resulting efficiency gains to deliver improved results to shareholders in the form of higher profit margins. Despite recession, BTC has raised profits from 8 per cent of sales to 10 per cent since 1990 – though other parts of the group have performed less well.

Superdrug comes from a very different stable. Part of the Kingfisher group – which also owns Woolworths, the B&Q do-it-yourself chain and the Comet electrical stores – it is guided by the "value retailing" principles of Sir Geoffrey Mulcahy, Kingfisher's chairman.

Sir Geoffrey believes consumers have become more discerning not just because of recession but because they face ever wider choice. He has repeatedly argued that retailers must respond by emphasising value and accepting lower margins in return for volume growth.

His radical views – partly inspired by the success of discount chains such as Wal-Mart in the US – have won supporters in the City. Some regard him as a prophet of a new wave of retailing, which will

Battling for business



Profit and loss account Kingfisher (£m)

Year ending	Jan 89	Feb 90	Feb 91	Feb 92	Jan 93
Turnover	2,660	2,910	3,235	3,388.8	3,547.9
Operating profit	225.6	245.8	245.4	218.9	208.7
Margin (%)	8.5	8.4	7.6	6.5	5.9

Profit and loss account Boots The Chemists (£m)

Year ending March	88	89	90	91	92
Turnover	1,928	2,084	2,268	2,360	2,471
Trading profit	101	151	190	228	245
Margin (%)	5.3	7.2	8.4	9.7	9.9

Boots PLC divisions (£m)

	88	89	90	91	92
Pharmaceuticals					
Turnover	519.2	524.6	583.8	625.8	699.2
Profit	101.8	95.3	111.1	115.1	120.8
Retail					
Turnover	277.2	221.1	539.3	681.2	624.6
Profit	-2.5	-1.4	24.0	27.3	-5.3
Property					
Turnover	-	-	-	0.7	5.0
Profit	53	46	54	60	69

Source: Company Reports

eventually sweep through the rest of the UK sector.

Though Sir Geoffrey stresses that value retailing does not mean neglecting customer service, pricing is at the heart of the approach. It is exemplified

Behind the PR stunts lies a clash between two business philosophies

by B&Q's recent decision to offer permanent discounts on 500 popular product lines, and by similar, more limited, offers at Woolworths and Comet.

Industry observers think Boots' margins on many items make further selective deep-discount raids by Superdrug inevitable – a view the latter company has not sought to dispel. "I don't think there is an end to this process," says Mr Paul Deacon of Goldman Sachs. "Superdrug will move from product to product and keep pushing."

Apart from the favourable publicity it has generated, Superdrug's biggest advantage is a low cost base. Though it is smartening up some of its stores, they are less lavishly equipped and often occupy less desirable sites than its larger rival's.

However, Superdrug faces several challenges. It has few in-store pharmacies, which account for a fifth of BTC's sales and are believed to be its most profitable business. Superdrug must also persuade Boots' main suppliers to sell it products, which some have been reluctant to do.

Mr Brady says that, to be sure of supplies of suncare products, he has bought in advance and stocked enough to meet all this year's expected demand. He also doubts that he can continue to expand perfume sales unless the MMC orders manufacturers to supply Superdrug direct, instead of forcing it to buy on the unauthorised "grey" market.

Mr Deacon doubts that if an all-out price war developed, Superdrug would emerge the winner, though he thinks it could damage Boots' margins.

Mr Hourston says price cuts on only two product ranges do not even amount to a battle. But he says BTC is preparing to defend itself against the threat of further onslaughts by Superdrug and is considering a range of possible responses. Though he will not give details, he says: "If they do this again, it would be wrong to assume we will retaliate in precisely the same way."

He argues that while Boots aims to offer competitive prices, its strength also depends heavily on its commitment to high product quality, well-equipped stores and customer service. However, he admits this may be a two-edged weapon.

"The impression can be created that, because of these investments, Boots is an expensive place to shop," he says – quickly insisting that this view is mistaken.

With 35,000 product lines, Boots can afford to subsidise price cuts on some from profits on others. However, Mr Hourston stresses that the company's financial goals make this only a temporary solution: if profits on individual products are inadequate, prices must be raised or the lines dropped.

Clearly, the extent to which Boots is obliged to adjust its marketing strategy depends heavily on when and how Superdrug steps up its offensive – and how long it lasts. Unlike Sir Geoffrey Mulcahy, Mr Hourston believes the current pricing pressures are transient and will recede once sustained economic growth resumes.

Which view is right may not become clear until much later this decade. But meanwhile, Boots may need to pay unusually close attention to what Mr Hourston calls "the lovely balance" between delivering the high margins which delight the City and the competitive prices need to keep customers loyal.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Insider dealing and those in the know

From Mr Godfrey Chandler.

Sir, Those who worry about the extent of insider dealing sometimes fail to appreciate the natural potential effect of good and bad news in a free market. There are, of course, a few flagrant cases. But the very fact that a limited number of people close to a company know of good or bad potential means that, whereas most of them will not buy before good news, nor sell before bad – they are unlikely to do the reverse. Therefore, a part of those closest to the company – including advisers who might normally be sellers or supporters – will "hold fire", reducing the weighting of one side of the market. Their absence from the market has its effect. This is especially true of small and medium-sized companies. Under the personalised jobbing system – pre-1986 – a jobber would soon have a quiet (or less quiet) word with the principals of any broking firm bringing suspicious business. In the new faceless market, matters are delayed and "official".

Commercial standards are lower – as they are with companies settling debts – in spite of broader rules. For, as Mr Wally Giles of Barings said on the introduction of the Take-Over Code: "If they had all read the 10 Commandments this would not be necessary".

Godfrey Chandler,
Stormont Court,
Godden Green,
Sevenoaks, Kent TN15 0JS

Context crucial in analysing Ukraine's nuclear position

From Mr Viacheslav A Skryghin.

Sir, Given the level of attention that the international news media has placed recently on Ukraine's delay in pursuing nuclear disarmament policies acceptable to the west, we were pleased to see that your editorial "Nuclear rift over Ukraine" (May 5) presented an unbiased and thoughtful analysis of Ukraine's current position.

As presented in your editorial, failure by western governments to evaluate some of the underlying motives surrounding Ukraine's position on these issues, and to pursue policies aimed at satisfying these concerns, threatens to thwart reaching an agreement which all parties, including the Ukrainian government, ultimately seek to accomplish: the dismantling of nuclear weapons on Ukrainian soil.

Further, the inclination of the international news media to report peripheral events without placing them within a broader context threatens to present a biased picture to the world of a country with potential strategic importance which is desperately attempting to define its role in geopolitical concerns.

With a population of more than 52m people and a land mass about equal to that of France, Ukraine is in the process of recognising this potential. Its relatively homogenous balance of 74 per cent ethnic Ukrainians and 21 per cent ethnic Russians helps to solidify the posture it takes in global events.

Your perspective also fosters the ultimate goal of encouraging the creation of a viable, democratic, nuclear-free state that offers opportunities for investment and trade which benefit both Ukraine and the rest of the world.

As an officer of one of the largest private companies in Ukraine, I found it refreshing to see that the Financial Times took a complete and responsible look at the complex underlying issues and presented them in their proper context.

Viacheslav A Skryghin,
vice-president,
INTL communications,
Ukrainian Financial Group,
15 Prorfznaya Street,
Kiev, Ukraine 252034

Competition in the CD market

From Mr Barry H White

Sir, The letters you published on May 10 uniformly attacked the idea of an inquiry into CD pricing.

As a consumer who would willingly buy more CDs if the prices were lower, I was surprised at the lack of objectivity in the arguments. The price of a top-class classical CD is now £14.99 in the UK, having risen in the last few years from the price quoted by Mr Perry of £11.99. Perhaps he is not a fan of Nigel Kennedy or Herbert van Karajan.

The US price for the exact same items, which I verified through a computer on-line shopping mall offering these items in the US, was $13.99, which equates to about £9.15. This is, contrary to Mr Deacon's comment, 40 per cent lower, not 10 to 15 per cent.

Finally, Ms Gordon's fears of illicit imports and inconsistencies in different markets would create no new problems than already exist for other imported goods.

There may indeed be problems for the distributors if changes occur but the discrepancies in pricing compared with the US are there for all to see, and without legally created barriers to import competition I doubt that these market imperfections could survive.

Barry H White,
Hecht Heyworth & Alcan,
51 Fordington Road,
Highgate, London N6 4TH

Disastrously cocksure

From Mr I J Bufton.

Sir, Another refreshing stream of opinionated political cynicism from Joe Rogaly: "A few (sic) local authorities changing political colour means little now that the Tories have stripped so much power from the counties" ("Where comedy is king", May 7).

The government's disastrous electoral results that very day stem from many factors. One was a cocksure assumption that ministers could trample over local democracy with impunity.

I J Bufton,
50 Kelmscott Road,
Birmingham B17 8QN

An unfair, but particularly British, moan about Don Quixote

From Jorg Schimmelpfennig.

Sir, For most of the time Clement Crisp's ballet reviews make for enjoyable reading. They are critical in the original, positive, meaning of the word and are enriched with lots of historical details reflecting Mr Crisp's profound knowledge of the matter. His destructive views on the Royal Ballet's new production "Don Quixote" (April 10 and April 28), however, and much more so the supporting letter by Mr Varcoe-Cocks (Letters, May 8), remind me of that British disease called moaning.

Marc Thompson's admittedly very unusual, and at first glance possibly disillusioning, designs serve the real purpose of ballet designs, which is helping the mind and the eye, to concentrate on the very dancing itself (that is, supporting it instead of competing with it), and are at the same time a most promising way of introducing classical ballet to a wider and younger audience. The latter point especially is essential for classical dancing to survive well into the next century.

On the night that I was fortunate enough to attend the performance the dancing was splendidly and most beautifully delivered by Leanne Benjamin, Jose Manuel Carreno and the supporting cast and was obviously very much enjoyed not only by the artists themselves but by the vast majority of a near-capacity audience as well.

I only hope the reasons for some of the seats being left empty have nothing to do with Mr Crisp's views, which this time were far too conservative (or may I say, as an elderly lady sitting just beside me suggested) reactionary. It would have been a pity.

The Royal Ballet can only be congratulated for sticking to its way by including "Don Quixote" in the 1993-94 season programme as well.

Jorg Schimmelpfennig,
Department of Economics,
Universitat Osnabruck,
Germany

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Wednesday May 12 1993

Towards sound money

THE CONVENTIONAL argument for making central banks independent is that politicians cannot be relied on to conduct a responsible monetary policy because of electoral pressures. How ironic, then, that France should now be introducing legislation to reduce political control over the Banque de France after an election in which the main parties of both right and left were committed to policies of exceptional monetary stringency. The outcome will reinforce suspicions of reverse causality in the statistical evidence that countries with independent central banks have lower rates of inflation. Those countries where there is a genuine consensus for low inflation, as in France over the past 10 years, will naturally be more prone to remove control of monetary policy from politicians.

Not that this invalidates the case for independent central banking. Since it is now widely accepted that there is no medium or long-term trade-off between higher inflation and higher output, the monetary authorities can only aspire to achieve the limited goal of price stability. Certainly the British experience indicates that shorter-term gains in output and employment from unanticipated inflation simply result over a period of years in more inflation for the same level of output.

How far a restructured and more autonomous Banque de France will add to an already credible French monetary policy is nonetheless a moot point. The government proposes to retain control over decisions on the exchange rate. As long as the Bundesbank remains the anchor of the European exchange rate mechanism and the French government remains committed to present parities, this implies that central bank decisions about interest rates are of limited import. By the same token, if the resolve to maintain the *franc fort* policy should weaken, the reconstituted central bank would have little say in the decision. Should the franc replace the D-Mark as the anchor of the system before any move to monetary union, the institutional arrangements would inevitably take on increased significance.

The French government proposes that the jobs of the governor, two deputy governors and a group of six experts remain, in effect, within the government's gift, but with a measure of independence coming from lengthy tenure – six years for the top trio and nine for the experts. This is a less powerful formula than the one with which a federal system has endowed the Bundesbank. It has more in common with the US Federal Reserve, where appointments are made by the administration. The question is whether the clubbiness of the elite that dominates French economic policy-making will result in rather less independence than the outward forms might indicate.

Equally important is the question of accountability. The bank's chief objective of price stability, which mirrors the Maastricht treaty's European central banking model, is undefined, while procedures for monitoring performance are opaque. But the fact that a retreat from disinflationary policy will require a legislative process is an important discipline.

Yet the benefits of central bank independence are probably greatest for countries such as Britain, where past failure has undermined the credibility of monetary policy. In the UK, more than in France, institutional reform is needed. Merely changing the face at the top of the British Treasury would not be enough.

Unbundling

THE UNBUNDLING of South Africa's economy has begun. Gencor's decision yesterday to hand over to its shareholders the stakes it owns in a wide-ranging collection of industrial subsidiaries is the first step in a process that will reshape South African business.

It has not come a moment too soon. The tensions that have bedevilled South Africa's economy – between corporatism and free enterprise, between English-speakers and Afrikaners, between the boundless wealth of the mining houses and the slim pickings of manufacturing – have left the country with a top-heavy corporate structure. Six groupings control 80 per cent of the total capitalisation of the Johannesburg Stock Exchange.

Now, prodded by politicians from the National party as well as by the African National Congress, big business is starting to think of becoming a bit less bloated. Tax concessions for unbundling from Mr Derek Keys – the finance minister but before that boss of Gencor – have eased the way.

Yet so far only Gencor has indicated a serious interest in the subject. The other big groups are doubtless studying the proposition, but so far without, apparently, making the emotional leap into the unknown.

That is a pity. South Africa needs to set its companies free from the strangling embrace of the big groups. Setting operating companies free to sink or swim will itself improve the quality of South African management. The arguement against such a process is that it will open the way for corporate raiders, asset-stripping and all the other accoutrements of Anglo-Saxon capitalism.

They are certainly a mixed blessing. But if ever a country cried out for them, it is South Africa. Vulnerability to takeover concentrates managers' minds, and gives fresh energy to their actions. South Africans of all races, all incomes and all political persuasions would benefit from the application of a little unfettered capitalism. Gencor has led the way.

Italy's tangle

ITALIAN CAPITALISM, like Oscar Wilde's Dorian Gray, appears to exist in two strikingly different guises. Its outward-turning features radiate the resourcefulness which since the second world war has given Italy one of Europe's fastest economic growth rates. This performance, while strongest among Italy's array of medium-sized companies, has turned some leaders of large Italian groups into international figures. It has also rewarded the country with a GDP per head (based on official figures) higher than that of the UK and united Germany.

The secret countenance of corporate Italy is much less pleasant to behold, but until recently has been mainly hidden. This face has now been revealed by investigations into corruption during the past 15 months in which more than 1,000 senior politicians and businessmen, many of them from Italy's leading corporations, have been implicated. Italian executives stand accused of connivance in a network of systematic bribery which has defrauded large sums from the public purse and helped keep in power a generation of flawed politicians.

As a result of the energy of the magistrature and the long-suppressed indignation of the public, the edifice of malpractice has started to crumble. For the larger companies caught up in the fray, an exercise in damage limitation is under way. Fiat, Italy's biggest private-sector group, which has seen more than half a dozen of its top executives arrested, interrogated or briefly detained in corruption inquiries, yesterday unveiled a strict code of business ethics to stop Fiat employees accepting payment in money or in kind from unscrupulous outsiders.

On one level, this is an attempt to demonstrate that Fiat is making a genuine effort to adopt more transparent practices in line with those ruling, say, in the US. On another level, by mounting an internal and external campaign against kickbacks, Fiat seems to be trying to win less harsh treatment for its executives ensnared in the judicial net. Mr Cesare Romiti, Fiat's chief executive, who previously complained about over-inquisitive magistrates, has switched to helping them with their inquiries, and exhorting other company chiefs to do the same.

Fiat's appeal to Italian industrialists may turn out to be a full-hearted bid to support the country's political reforms. But if the company is simply trying to avoid prosecutions of individuals on the grounds that they were forced to misbehave by the politicians, this is likely to bring discredit.

A spirit of co-operation – seen most vividly in Italy's close-knit business networks – has been a vital source of its economic dynamism. But when such networks give rise to self-serving or even criminal collusion among corporations or among corporations, politicians and the state, they are consistent neither with desirable standards of public morality, nor with Italy's wish to move closer to the head of Europe's economic league. The programme of privatisation of state enterprises is one way of freeing Italy's considerable reserves of dynamism. Yet unless Italian companies co-operate fully in the current attempt to unravel an inefficient and self-destructive tangle of corruption, the dream of a reformed Italy will remain unfulfilled.

Much ado about lending

Financial considerations alone no longer dictate aid strategy for Russia, say **Edward Balls** and **John Lloyd**

The International Monetary Fund does not, for once, hold all the bargaining chips. Negotiators are in Moscow this week to thrash out a tough credit plan with the Russian government, without which no western aid can flow. But they know that the west is determined to start releasing funds soon, no matter what kind of agreement is reached or whether it can be implemented.

Financial considerations alone no longer dictate the west's aid strategy to the former Soviet Union, much to the IMF's dismay. Officials from the Group of Seven industrialised countries say they are determined not to see a repeat of last year, when only $1bn of an original $24bn aid package was disbursed because the Russian government was unable to meet the IMF's tough financial conditions.

"The G7 did a lousy job last year," admitted one senior G7 official. "A good opportunity was lost because the IMF tried to nail down too many details. We are determined not to see that happen again."

At their meeting in Tokyo four weeks ago, the G7 foreign and finance ministers announced a headline figure of nearly $44bn of assistance to Russia over the next year from the IMF, the World Bank and in bilateral aid. (Both the IMF and the World Bank receive the bulk of their funding from the G7.) But the ministers told the fund to dispense with its normal practice of *waiting for a track record of financial discipline before releasing aid.*

Instead, they instructed the IMF to offer each former Soviet republic fast disbursing aid – labelled a "systemic transformation facility" – half of which would be paid immediately to any government demonstrating a "credible" reform strategy. For Russia this facility will provide $3bn. The IMF was also told to begin to disburse to Russia a further $4bn in standby loans by, at the latest, October 1, and preferably before the July G7 summit in Tokyo. The World Bank is being pressed to lend about $4bn during its next fiscal year, which runs from next month to June 1994.

The recent Tokyo meeting posed a problem for both the bank and the fund – and potentially a crisis of authority. According to a senior bank official, the G7's command that the bank and the IMF must come to an agreement with the Russians is "unprecedented in the annals of the bank or the fund, in any country. Nothing is remotely comparable".

Another bank official said that "the danger is that our reputation and our expertise will be debauched. We are big organisations which have built up a large body of expertise. Now we are being told: just do it. What happens to morale? And what about those countries which also didn't meet the criteria we set and didn't get the money. You can bet there is a lot of screaming going on behind the walls in Washington."

Life had already become increasingly uncomfortable for the IMF, even before these new pressures were applied. "Last year," said one IMF official, "was a disaster. But it has been a disaster not just for Russia, but for the IMF itself."

At the root of the west's difficulties is Russia's failure to meet the stringent targets set down for the receipt of aid. The reformers, constantly fighting for their political lives and warring with Mr Victor Gerashchenko, central bank chairman, were unable to bring inflation down to 9 per cent a month by the end of 1992 by cutting state spending and central bank credits – the basic condition for assistance. Consumer prices rose by 25 per cent in December alone, and, while the official budget deficit was only 4 per cent of GDP, total credits issued by the central bank to the state sector totalled 40 per cent of GDP.

If anything, the prospects for economic reform have deteriorated further in the past few weeks. Both the Russian government and central bank continue to sanction ever more credits for loss-making state enterprises, while President Boris Yeltsin's recent cabinet changes have appeared contradictory. Since his election victory two weeks ago, he has appointed two deputy prime ministers without known commitment to reform, although senior sackings yesterday may signal that he is willing to strengthen the course of economic transformation again.

The IMF argues that its inability to lend more is the result of the Russian government's financial profligacy, not excessive caution. Mr Michel Camdessus, the IMF managing director, wrote recently in the daily Russian newspaper Izvestia that the fund could not lend money to inflation-wracked Russia only to see it leave the country as investors took flight from a falling rouble.

Since those remarks, the west has had a change of heart. First, western governments, seeing reform stagger and sometimes go into reverse last year, have become more aware of the consequences of failure. President Clinton illustrated the shift in attitude in a speech oon April 1: "If Russia's reforms turn sour, if it reverts to authoritarianism or disintegrates into chaos, the world cannot afford the strife of the former Yugoslavia replicated in a nation as big as Russia."

Second, the Clinton administration has been influenced by western advisers to the Russian government, who have, at times, mounted a ferocious critique of what they term the passivity and alleged incompetence of the IMF. Professor Jeffrey Sachs of Harvard University, who has led this attack, says the IMF has proved incapable of thinking tactically and continued to view aid as a reward for success, rather than a pre-condition. "The IMF has refused to agree realistic targets which take into account the amount of available foreign financing," he said.

In Tokyo, the G7 ministers "encouraged" the IMF "to play a more active role". G7 officials now say the Russian government must merely demonstrate that it intends to bring credit creation under control and cut subsidies to enterprises before aid can start to flow as early as the end of this month.

But the lack of a Russian track record of discipline frightens financial institutions. "The bank and the fund are now under enormous pressure to provide assistance and provide it quick," said one senior World Bank official. "And the message is we shouldn't be too worried about conditions. This is very difficult to do, not just in terms of our responsibility to our donors, but also organisationally."

G7 officials rebut the suggestion that aid will now, in practice, be unconditional. "We have focused conditionality, not weakened it," said Mr Lawrence Summers, assistant secretary for international affairs at the US Treasury.

Nonetheless, growing tensions between the G7 and the international financial institutions remain, and cannot be dismissed as a mere disagreement over strategy. The institutions have to think of life after Russian reform – and of their standing with other, often poorer, members in Latin America and Africa.

G7 officials counter that the international financial institutions set too much store by economic conditions and fail to recognise political realities. "Let's not get overly misty-eyed about conditions," said one senior G7 official. "How much conditionality was there in the average Argentine programme in recent years?"

"G7 officials do not believe that it is appropriate to lend regardless of what is going on in Russia," he added. "But the task now is to push the Russians to do the right thing. We cannot wait to negotiate every 'i' and every 't'."

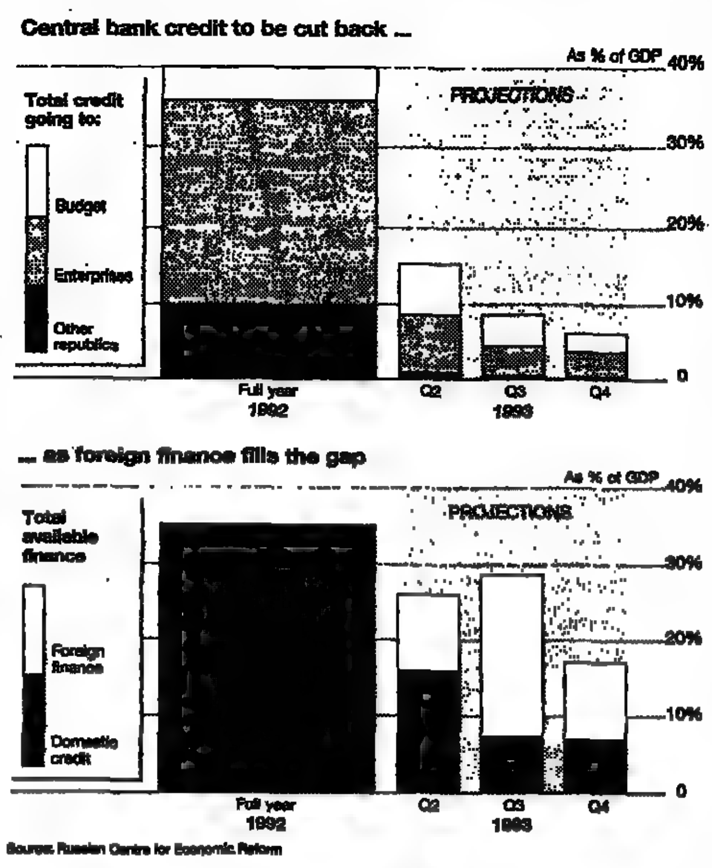
The G7's bold strategy is supported by Professor Stanley Fischer, previously chief economist at the World Bank and now an adviser to the bank from his base at the Massachusetts Institute of Technology. He is worried, however, about the capacity of the Russians to implement reform.

"It is possible that the institutions' credibility will be damaged, although probably much less than they now fear," he said. "But while the west must not be seen to be supporting everything the Russians do, it must still support them in a big way."

The US backs that view, believing that aid is essential now to buy time while reformers in the Russian government pursue the accelerating privatisation programme and economic restructuring. But the policy seems likely to meet resistance from senior officials in the IMF and World Bank who fear that the money will be wasted, and that they will be blamed.

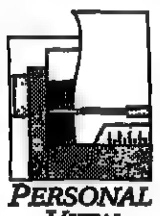
"One can debate the niceties," said a senior World Bank official, "but at some point we must ask – is it likely that the Russian government will deliver on a consistent economic programme? My view is that it will not. I think the G7 will be proved wrong and I don't think it will be our fault."

Russia's stabilisation plan



Source: Russian Centre for Economic Reform

How to make the Ecu user-friendly



PERSONAL VIEW

Will the European Currency Unit be the single currency for Europe, as laid down by the Maastricht treaty? I have my doubts. The Community's 340m citizens are unlikely to accept a strange new currency that none of them knows – any more than Europeans were willing to accept Esperanto as a common language earlier this century.

Just as English, with American help, has become the *lingua franca* of Europe, so the Continent's single currency will probably be the one most familiar to a large proportion of the population. Most likely, it will be the D-Mark.

The Ecu is weighted against a basket of EC currencies; it was created as a "European" currency, neutral in nationalistic terms. It is widely used in Eurobond transactions, and an Ecu clearing system is managed by commercial banks. Further, it is used as a unit of account between governments, as well as by some European companies.

However, the Ecu has some overwhelming practical disadvantages. It is viewed by the market simply as one more foreign currency. Its value is not known outside professional circles. There are no Ecu notes and coins, nor are consumer goods priced in Ecu.

Additionally, the Maastricht plan for economic and monetary union (Emu) suffers from a serious technical drawback. According to the Emu timetable, member currencies' exchange rates will be permanently fixed in terms of Ecus at the start of Stage 3 – which could be in 1997 or (more likely) 1999. Thus the value of the Ecu will not be known until the close of business on the last working day before Stage 3 starts.

Since the closing market rates are likely to be expressed to four decimal places, consumers and savers will be expected to learn to live with the new currency at a complicated conversion rate. The Ecu can be saved only if it is made much more user-friendly. The simplest way to achieve this is to fix the Ecu/D-Mark parity at Ecu1.00=DM2.00 from the beginning of Stage 2 on January 1 1994. This compares with the present rate of DM1.953 to the Ecu.

The process would require a precise interpretation of the wording of the Maastricht treaty. Article 109g states that, from the beginning of Stage 2, "the currency composition of the Ecu basket shall not be changed". If this article were taken to mean that the percentage weighting (rather than, as at present, the fixed amount) of each currency within the Ecu basket shall not be changed, it would need only a minor adjustment over the 1994 New Year weekend to reset Ecu currency weights to produce a fixed value of DM2.

A scheme to allow the Ecu's value to become instantly recognisable is necessary

This scheme would allow the Ecu's value to become instantly recognisable. The D-Mark, which has a weighting of about 32 per cent in the Ecu basket, is by far the best known currency among Community consumers. The Emu planning process for banks and industry could begin in Stage 2, assisting the transition. New German notes and coins could be issued during Stage 2 showing both the Ecu and D-Mark value. The Bundesbank would still have to surrender influence over monetary policy to the European central bank. At the same time, one of the Bundesbank and the German people's main objections to Emu would be removed. They would keep the D-Mark; the Ecu would become the "Doppelmark".

For France, such a plan might bring some loss of face. But the "basket" concept of the Ecu would be preserved, albeit in a more cosmetic guise. The French could permanently fix the franc against the D-Mark at the beginning of Stage 2. France could then issue Ecu notes which could be co-ordinated with German designs and made legal tender in both countries. Following the French government's success in weathering currency turbulence on the foreign exchange markets since last autumn, the obvious round number parity would be FFr100=DM30=Ecu15.

My proposal would bring an important challenge for Britain, which clearly does not want to be left out of a move towards a single European currency. Britain is close to an important round number relationship with the DM/Ecu. At DM2.50, the Ecu would be worth 80 pence. Should Britain decide to rejoin the exchange rate mechanism at or after the start of Stage 2 at a fixed rate of DM2.50, the British public would have a reasonably simple conversion to make. Britain, too, could experiment ahead of Stage 3 by issuing some £20 notes showing their fixed equivalent value at DM50 and Ecu25.

If people object to the word Ecu, the Financial Times (and perhaps the Sun) could sponsor a poll to choose a more appealing name. Why not rehabilitate the "guinea"?

Lord Cobbold

The author is managing director of Gaiacorp Currency Managers

OBSERVER

Lesson from Vienna

■ One calculation seems to have been overlooked during Monday's sometimes acrimonious debate about the imposition of VAT on British fuel bills.

How much extra will it cost if higher fuel bills force more freezing pensioners into state-subsidised nursing homes earlier than planned?

Presumably, a statistically minded chap like Peter Lilley, secretary of state for social security, has asked someone to add it up. If he hasn't then he ought to have a word with his opposite number in Vienna.

It seems that the socialist city fathers of Austria's capital have concluded that the most economical policy of all is to provide free heating for old age pensioners.

Admittedly, Austria is a colder place than Britain and probably has a better social safety net. Even so the argument still sounds applicable to the UK.

Given that fear of winter cold was driving an increasing number of OAPs into local nursing homes, the Viennese authorities concluded that it would be worth providing old people on low incomes with free district heating and home insulation.

If, by so doing, they could keep these old Viennese in their flats for just two additional years rather than seeking permanent shelter in nursing homes, the programme would pay for itself. In practice, the Viennese are staying an additional five years in their flats compared with the period before the free heating began.

UK nursing home care is more limited and less plush than in Vienna, but it would be surprising if the addition of VAT to heating bills – if not fully reimbursed for OAPs – did not lead to a corresponding rise in nursing home care and end up perhaps costing the Exchequer more than the tax it will yield.

Prison duty

■ For a man who spends most of his time in prisons, ex-Watergate villain Charles W "Chuck" Colson seemed unusually worried about the health of the British pound yesterday.

Colson, a 61-year-old ex-US Marine Corps captain, has just won the world's biggest religious award – the Templeton prize for progress in religion. For some strange reason Sir John Templeton, one of the world's most astute fund managers, made the mistake of donating his £650,000 prize in sterling, and Colson, despite being a born again Christian, is acutely aware that the pound has been going through a bit of a rough patch.

Not that he gets to keep the money for himself – it is all going to his Prison Fellowship – but he wants value for money.

'You're a man of the world – what does scapegoat taste like?'

Although Colson's role in the downfall of President Nixon is history he still resembles the powerful Washington powerbroker he once was. A person who can be relied on to get things done. Only nowadays, he channels all his energies into his worldwide network of prison ministries. With over 280 staff and 50,000 volunteers his empire operates in 55 countries.

If you want to talk prisons, Colson's your man and his considerable achievement has been deservedly recognised by an award which has already gone to people like Mother Teresa, Dr Billy Graham and Lord Jakobovits. Colson's conclusion that there is no better way to destroy a person than give them nothing to do is a grim verdict on the lack of proper work for the inmates of prisons in Britain and elsewhere.

World Bank watch

■ The hunt for Larry Summers' replacement as the World Bank's economic guru seems to be taking an inordinately long time. Admittedly, Michael Bruno, former governor of the Bank of Israel, has ruled himself out by taking a similar job at Jacques Attali's EBRD. But there are plenty of other contenders.

Since there are not many Brits in top positions at the Bank and the job will probably go to a non-American, how about Richard Layard, 59, professor of Economics at the London School of Economics? He is best remembered in Whitehall for pointing out flaws in the Thatcher government's presentation of unemployment figures, but as an adviser to the Yeltsin government he has first hand experience of the problems of former communist economies - a central part of the bank's portfolio in the 1990s.

If he is too old or lacks intellectual gravitas, there are plenty of other candidates in Britain and elsewhere. Lewis Preston, the World Bank president and former J P Morgan banker, seems to be determined to find somebody with whom he feels personally comfortable.

But with pressing challenges in the former Soviet Union and elsewhere, he shouldn't dilly dally much longer. Even economists need leaders.

Trailing Birt

■ Want to get to the top in the BBC? Take a compass bearing on Bob Phillis, the new deputy director-general. After little more than a month in the job, Phillis has set off for the Himalayas.

It might seem a bit early to take a holiday, even by civil service standards. But that misses the point. He is following in the footsteps of his new master – John Birt – who travelled to Nepal to think great thoughts about the future of the Beeb before he became its dg.

Phillis's official reason for his early pilgrimage is that he wants to visit son Ben who is teaching English there before going to university in the autumn. But cynical BBC types are wondering whether there is more to his mission than meets the eye.

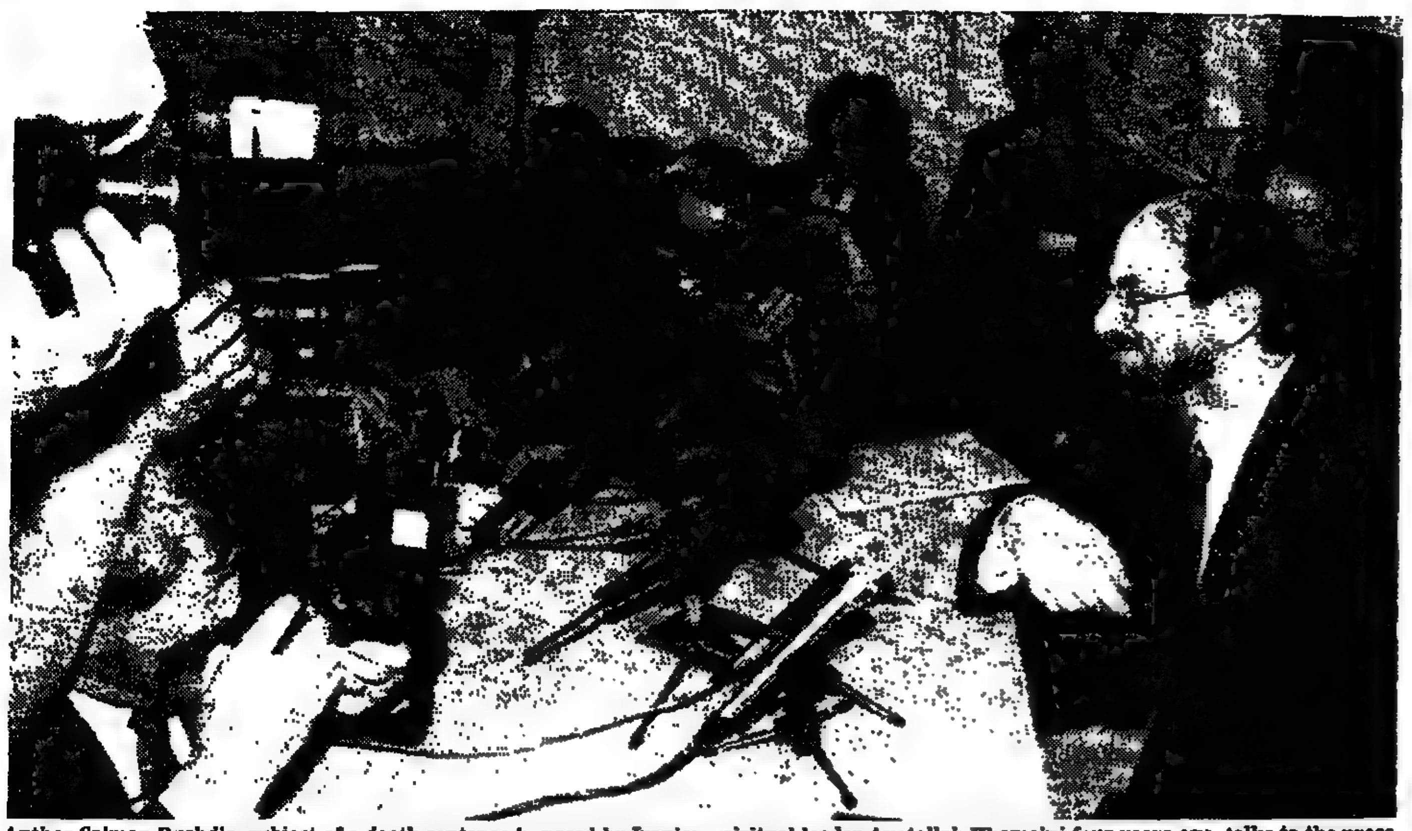
Could it be that the necessary induction process into the highest peaks of the BBC management is not complete without at least one visit to a Trappist monastery?

Meant well

■ Spotted in the visitors book of a hotel in India.

"A wonderful stay - spoilt by the staff".

FINANCIAL TIMES
Wednesday May 12 1993



Author Salman Rushdie, subject of a death sentence imposed by Iranian spiritual leader Ayatollah Khomeini four years ago, talks to the press after a meeting with UK prime minister John Major symbolising the British government's support for his cause

Fiat issues anti-corruption code for employees in Italy

By Haig Simonian in Milan

FIAT, Italy's biggest private company, yesterday sought to distance itself from the growing political corruption scandal by issuing a new "code of business ethics".

The move is expected to be followed by other big Italian companies, including the state-owned Eni energy and chemicals group, which has also been implicated in allegations of corruption and kickbacks on public-sector contracts.

The code, drawn up by a team of lawyers headed by Mr Franzo Grande Stevens, a close adviser of Fiat's controlling Agnelli family, sets out behaviour for employees towards government officials, political parties and civil servants. It supplements an existing "internal" code regarding issues such as conflicts of interest and insider trading.

The document, approved at a special board meeting yesterday, specifically forbids any form of bribery or kickbacks involving the public sector. The ban also applies to any financial inducements to public servants or politicians in covert form, such as sponsorship, advertising or cosmetic "consultancy" agreements.

"No group employee must promise or pay money or benefits in kind of whatever nature or value to any public sector official to promote or favour the interests of one or more group companies, even as a result of illegal pressure," it says.

Though not made explicit, the penality for non-observance would be termination of a worker's contract. The same requirements will have to be met by sub-contractors or freelances working on behalf of Fiat or its subsidiaries, which will have to make a commitment to respect the strict conditions.

All employees whose jobs are likely to expose them to the areas covered by code will have to sign a copy of the document. The company said implementation throughout the group would be slow, as the code would only come into operation in each of the roughly 1,000 separate companies after being approved by their respective boards.

The code does not extend to dealings with other private sector companies or the behaviour of Fiat executives abroad, although the company said it was expected that the code would in time be extended outside Italy.

Fiat employees most likely to be asked to sign are those dealing with sales and marketing, relations with the public sector and lobbying, and purchasing.

Fiat's initiative came as magistrates recalled for questioning Mr Francesco Paolo Mattioli, its chief financial officer, who has been under house arrest.

Milan magistrates are believed to be investigating conflicting testimony from Fiat executives regarding the role of the group's Cogefar-Impresit construction subsidiary, chaired by Mr Mattioli.

Ex-communists accused, Page 2
Editorial comment, Page 15

Waigel urged to take over as Bavarian premier

By Quentin Peel in Bonn

TURMOIL within the German political establishment looks set to cause further upheaval in the government, with growing pressure on Mr Theo Waigel, the finance minister and close ally of Chancellor Helmut Kohl, to quit and take over as state premier in his home base of Bavaria.

Reports yesterday said Mr Waigel, a symbol of stability and key figure in the ruling coalition, is to return to Munich and replace Mr Max Streibl, his protégé in the Bavaria-based Christian Social Union, as prime minister.

The move could aggravate the current climate of uncertainty surrounding the German government, by bringing an unfamiliar politician to the finance ministry at a critical moment in the struggle to bring government spending under control in the wake of German reunification.

The leading contender for that job is said to be Mr Rudolf Seiters, the interior minister in Bonn and former head of the chancellor's office. However, Mr Seiters lacks any background in finance or economics.

At the same time Mr Waigel's move would be intended to bolster the position of the CSU in Bavaria, where his party faces a growing challenge from the far-rightwing Republicans in next year's state, national and European elections.

Mr Streibl is under enormous pressure to quit as Bavarian premier, because of reports that he accepted free holidays from a business friend.

The whole reshuffle, confidently forecast yesterday by the conservative newspaper Die Welt, depends on the outcome of a struggle for power within the CSU, sister-party of Mr Kohl's Christian Democratic Union in the ruling coalition.

If Mr Waigel, the party leader, comes out on top, he will go home to replace Mr Streibl, whose resignation is now taken for granted. If he loses, he will stay in Bonn as finance minister.

His great rival for the state premier's job is Mr Edmund Stoiber, currently interior minister in Bavaria, widely regarded as the strong man of the party, and a close associate of the late Bavarian leader, Mr Franz-Josef Strauss. Insiders say he does not want to go to Bonn, where he would be offered the job of federal government interior minister, but wants to become state premier himself.

In Bonn Mr Stoiber could be a positive asset to the federal government in the promised position of interior minister. He is seen as a stern, conservative advocate of law and order, likely to be a big issue in the 1994 elections.

However, Mr Kohl might prefer such a forceful character to take over in Bavaria, leaving him the good-humoured Mr Waigel to the unpopular job of penny-pinching finance minister.

German recycling bill, Page 2

Spaniard lost for words walks out of senior post in Brussels

By David Gardner in Brussels

THE SUDDEN resignation of the European Commission's director-general for social affairs has cast an embarrassing spotlight on how the EC fills its senior jobs. It also calls into question how seriously the Community takes its ambition of building a "social dimension" into European integration.

Mr Sigismundo Crespo, the Spanish director-general of DG5 (social policy) in the Commission left Brussels late last week, leaving a note for his secretary saying he would not be back.

In a subsequent, sharply worded fax from Madrid to commission president Jacques Delors, he confirmed his resignation. A furious Mr Delors has now summoned Mr Crespo to see him, one senior official said yesterday.

Official explanations for his departure vary. Mr Crespo was said by one official to have suffered a family tragedy. But he is understood to have complained in his fax that his lines of communication inside the commission had been deliberately blocked.

Mr Crespo took over DG5 in October. However, it was known that the social affairs directorate had been earmarked for a Spaniard as long ago as February 1991, because of a reshuffle of top Commission jobs which left Spain one directorate-general short.

With Spain and other member states unyielding over their informal quotas of top jobs, Brussels sought a Spaniard of high calibre. Highly regarded Spaniards within the Commission, like Mr Eneko Landaburu, the Basque head of regional policy, were not interested.

Mr Crespo, known in Spain for transferring back to the trades unions the assets seized by Franco, was sent from Madrid and found immediately to be out of his depth.

His main handicap was linguistic. Although he spoke French, he was unable to communicate in English with his boss, Mr Padraig Flynn, the Irish commissioner for social affairs. Mr Flynn has no French and had placed British and Irish officials alongside and immediately under Mr Crespo, hemming him in.

The affair comes at a time when Brussels has been at cross purposes on social policy. Mr Flynn has won support from the 12 to prepare an EC-wide jobs initiative. However, it emerges that Mr Delors has been working discreetly on a similar initiative, using his own network within the Commission.

The resignation is also an embarrassment to Madrid, where Mr Felipe González's socialist government faces losing its electoral majority in three weeks.

French plan central bank's independence

Continued from Page 1

them. Mr Longuet has already told Bull, the lossmaking computer company which last year received a FFr2.5bn ($460m) state injection, to produce a new strategy to ensure that it no longer had to be bailed out by the government. He said the the government might in future be more amenable to international investors taking stakes in Bull as IBM of the US and Japan's NEC have already done.

France Telecom, the telecommunications group, is another candidate for international investment. Mr Longuet said it should consider forging links with other European telecommunications concerns, or industrial groups, to take advantage of the liberalisation of the European Community telecommunications market in 1998. France Telecom has formed a number of international joint ventures in Eastern Europe and Latin America.

This shift in industrial policy is partly the product of ideology. Mr Longuet, styling himself as a "pragmatic liberal", rejected the old-style French strategy whereby the government supported companies in sectors which were considered to be strategically important. His approach is reflected in the new government's privatisation programme, which envisages selling a wide range of financial and industrial groups to the private sector.

Mr Longuet, who outlined his policy the day after Mr Edouard Balladur, prime minister, unveiled his "austerity" budget, said the approach was also due to budgetary constraints. The current pressures on the French economy, he said, gave the government "no room for manoeuvre" to provide new investment for state-controlled companies.

World Weather

		°C	°F
Ajaccio	S	21	70
Algiers	S	24	75
Amsterdam	S	21	70
Athens	F	23	73
Bahrain	F	30	86
Bangkok	F	37	99
Barcelona	S	18	64
Beijing	F	26	79
Beirut	S	21	70
Belfast	F	15	59
Belgrade	S	23	73
Berlin	S	25	77
Bermuda	F	19	66
Bombay	S	34	93
Bordeaux	C	18	64
Boulogne	S	24	75
Brussels	S	25	77
Budapest	S	25	77
Buenos Aires	R	20	68
Cairo	F	26	79
Cape Town	C	15	59
Caracas	C	31	88
Casablanca †	F	21	70
Chicago †	F	13	55
Cologne	S	26	79
Copenhagen	S	19	66
Corfu	S	23	73
Dallas †	C	14	57
Dublin	C	13	55
Dubrovnik	S	23	73
Edinburgh	S	12	54
Faro	C	19	66
Florence	F	19	66
Frankfurt	S	25	77
Geneva	F	22	72
Gibraltar	S	21	70
Glasgow	S	16	61
Helsinki	S	19	66
Hong Kong	C	26	79
Innsbruck	F	24	75
Inverness	C	8	46
Islamabad	F	30	86
Istanbul	F	13	55
Jakarta	R	32	90
Johannesburg	S	21	70
Lisbon	F	19	66
London	S	20	68
Los Angeles †	C	16	61
Luxembourg	S	24	75
Madeira	F	21	70
Madrid	C	17	63
Majorca	F	20	68
Malaga	S	22	72
Malta	S	21	70
Manila	F	36	97
Melbourne		-	-
Mexico City	C	23	73
Miami †	S	24	75
Milan	F	17	63
Montreal †	F	12	54
Moscow	F	23	73
Munich	F	25	77
Nairobi	C	21	70
Naples	F	23	73
Nassau	F	27	81
New Delhi	S	35	95
New York †	S	19	66
Nice	C	19	66
Nicosia	F	20	68
Oporto	S	18	64
Oslo	S	22	72
Paris	S	24	75
Prague	F	23	73
Reykjavik	Dr	8	46
Rhodes	F	19	66
Rio d'Janeiro	F	32	90
Rome	F	20	68
Salzburg	S	25	77
S'Francisco †	Dr	12	54
Seoul	F	21	70
Singapore	F	31	88
Stockholm	S	30	86
Strasbourg	S	25	77
Sydney	S	19	66
Taipei	F	30	86
Tangier	F	22	72
Tel Aviv	C	22	72
Tenerife	C	20	68
Tokyo	C	24	75
Toronto †	S	17	63
Tunis	S	25	77
Valencia	F	23	73
Venice	S	24	75
Vienna	S	23	73
Warsaw	F	25	77
Washington †	F	23	73
Zurich	F	21	70

Temperatures at midday yesterday
† Noon GMT temperatures
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

Separate development

Gencor's long-awaited decision to demerge its non-mining interests looks like a sensible response to changing political circumstances in South Africa. The African National Congress has voiced strong opposition to the complex webs of cross shareholdings between South African companies. Gencor has decided to jump before it was pushed. The former chairman, Mr Derek Keys, did much to transform Gencor's insular culture. As finance minister, he has had responsibility for the legislation which will make such unbundling easier.

The financial rationale for the move, however, looks more specious. While the managements of the individual businesses may have greater flexibility, Sankorp and Rembrandt will still have near-controlling stakes in each of the companies – most notably in Gencor's mining operations. Since the move has been well flagged, Gencor's discount to net assets is also unlikely to improve much. Foreign investors are still more likely to be deterred by the political risks of investing in South Africa however transparent the structure of corporate ownership.

This demerger will also increase pressure on other combines. Life assurance companies which control a large segment of domestic savings may be forced to unwind their complex cross shareholdings in industrial companies. The greatest discomfort, however, will be felt in the Anglo American Corporation, which effectively controls almost a quarter of the quoted South African market. The Oppenheimer family's resistance to unbundling will doubtless continue, and the creation of De Beers Centenary in Switzerland creates a trap-door escape from South Africa. But skill will be needed if the Anglo pyramid is not to become a monument to a weakened dynasty.

Inchcape

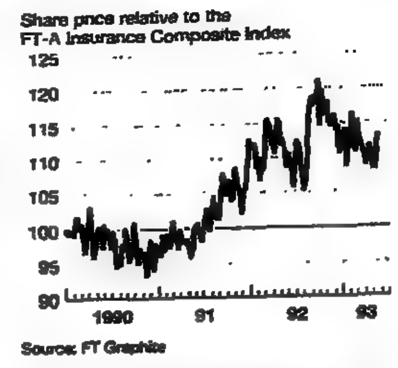
At first glance, Inchcape's acquisition of a stake in Gestetner looks a cheap and canny deal. Inchcape is limiting the risks of buying into a struggling photocopier distributor by staggering its investment. The immediate acquisition of 15 per cent of Gestetner's shares at a minimal premium buys it two seats on the board and access to management accounts. The purchase of the option to buy its entire convertible unsecured loan stock before 1994 gives it greater exposure if it likes what it sees.

Inchcape is attracted to the recovery value which seemingly lies in a business making small profits on £900m of sales. But the vendor is clearly selling cheap for a reason. The softness of Gestetner's markets in mainland Europe suggests it will be a long, hard slog to return to respectable margins. Inchcape regards the investment as somewhat speculative; shareholders should perhaps do likewise. Some, though, may have misgivings about the change in strategic thrust should the Gestetner involvement develop significantly. Inchcape's primary attraction for many investors is its exposure to the blossoming southern Chinese economy. For them, at least, Gestetner may prove an unwelcome distraction.

FT-SE Index: 2836.1 (+6.3)

General Accident

Share price relative to the FT-A Insurance Composite index



Source: FT Graphite

General Accident

General Accident continues to defy those expecting it to launch a rights issue. First-quarter results showing a solvency margin of over 46 per cent, despite an 11 per cent increase in premium income on general business, leave plenty of room for further expansion. There are some technical factors behind the £71m swing in profits. Two successive preference share issues have allowed the company to pay down debt, helping reduce the interest charge by £8m. Last year's generous transfers to technical reserves have the indirect effect of boosting investment income. Marginally smaller transfers this year accentuated the improvement in the underwriting result.

Still, the extent of the underwriting turnround came as a surprise, particularly in the UK which is almost breaking even. Since the first quarter is traditionally weak, one can now pencil in pre-tax profits in excess of £200m for the year as a whole. Coupled with the absence of a rights issue, this was enough to drive the shares 3 per cent higher. In its excitement, though, the market appears to have overlooked the limited room for dividend growth.

Retained earnings in GA's balance sheet have fallen to just £44m at the end of last year from a peak of £660m in 1989. Despite this year's more optimistic outlook, the company will scarcely manage more than a token increase in the dividend without dipping in to reserves again. General Accident has not launched a rights issue like Royal and Commercial Union, but nor has it cut its dividend like GRE. Its reluctance to break what has become a habit of overpayment will limit its ability to rebuild its reserves in the recovery. Not a happy thought for a company which is trading at a hefty premium to book.

Reed Elsevier

The administrators of Maxwell Communication Corporation's US businesses recently reported they were receiving bids for the diverse assets on a "Chinese menu approach". Reed Elsevier, though, is sticking to plain boiled rice by offering $425m for Official Airline Guides alone. If Reed can consummate the deal at that price, it would represent something of a coup. The assets are essentially the same as those which Reed failed to secure in 1988 when Mr Robert Maxwell weighed in with a higher $750m bid.

Although OAG has suffered badly in the torrid US airline market, it still made operating profits of $44m on revenue of $154m last year. With firm management and a recovering market, Reed should be able to push margins higher. The business would also complement Reed's existing interests in airline publishing. The deal, however, is far from done. Reed will now conduct its due diligence while the anti-trust investigators scrutinise the deal. The letter of intent is non-binding and non-exclusive. The administrators may hope they can flush out a higher offer now firm numbers are on the table. They may still believe they can realise greater value by selling the assets as a package.

Reed can afford to walk away again if the bidding goes too high. Its simultaneous announcement that it had agreed to buy into France's biggest legal publisher suggests plenty of other routes for expansion.

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1993 Wednesday May 12 1993

INSIDE

Cable and Wireless expands in Asia

Cable and Wireless, the UK telecommunications group, is forming a $3bn joint venture which could give it a prime role in the development of the telephone system in the Philippines. The venture is the latest in a succession of moves to establish itself as the leading international telecoms operator in the Asia Pacific region. Page 25

Gold fingers in the corner shop

China's gold-purchasing agency, the People's Bank, is facing increasing challenges to its gold trade monopoly. The establishment of a flourishing gold market in China's northern Liaoning province near the Soviet border poses the most severe threat in years to the People's Bank's domination of the gold trade. "Some stores trade gold bars, not just gold jewellery," said a People's Bank official. Page 26

Packer sells banking stake

Mr Kerry Packer, the Australian media entrepreneur, has sold an 8 per cent stake in Westpac Banking Corporation to Lend Lease Corporation, the financial services group. The deal leaves Westpac with two large financial institutions as dominant shareholders. Page 18

Better weather to float

The climate for UK flotations has rapidly moved from freezing to a near summer-like warmth as investor interest has revived. Recent issues have been comfortably over-subscribed and first day dealings have shown premiums. There is a string of companies lining up for market taking advantage of historically high share prices. Page 24

Sears, Roebuck announces sale

Sears, Roebuck, has sold its mortgage banking group to a Pittsburg-based bank holding company for $328m in cash. The sale is the latest in a series of planned spin-offs designed to trim Sears' financial businesses. Mr Edward Brennan, Sears chairman, said: "The successful completion of this transaction is another important step in Sears' previously-announced repositioning which will continue to enhance shareholder value." Page 21

Philippines frenzy

The Philippine stock market appears to be taking a breather from a record-breaking frenzy. However, analysts expect the rise to resume after the market consolidates this week from an overbought position. The composite index closed yesterday at 1,642, down from a record high of 1,654 on May 5. Excess liquidity caused by a reduction in Treasury bills auctioned by the Central Bank has kindled interest in equities. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Bil & Berger	900	+	10
Colonia Konzern	990	+	10
Heidelb Zem	1128	+	20
Industrie Werke	296	+	7
Lahmeyer	596.7	+	11.7
Falls			
Leifheit	509	–	12

NEW YORK ($)

Rises			
Anheuser Busch	51⅛	+	1⅛
Citicorp	28½	+	½
Chase Manhattan	30¾	+	⅞
Falls			
Intel	100¼	–	2¾
Microsoft	87½	–	1⅞
Philip Morris	51⅛	–	1⅛

New York prices at 12.30pm.

PARIS (FFr)

Falls			
Axa	1199	–	36
CGIP	1053	–	42
Chargeurs	1075	–	50
CCF	235.2	–	9.8
Fonc Lyonnaise	840	–	19
Havas	413	–	12.5

TOKYO (Yen)

Rises			
Furukawa Batt	640	+	81
Hitachizosen	420	+	55
Meiwa Industry	709	+	100
Nippon Seiro	438	+	58
S'tomo Heavy	505	+	27
Falls			
Nissan	780	–	30

LONDON (Pence)

Rises			
Avesco	88	+	5
BTP	281	+	11
Berisford Intl	135	+	7
Bradford Prop	190	+	8
CRH	268	+	11
Cook (Wm)	174	+	12
Erskine Hse	89	+	54
Eurocopy	47	+	4
Finlay (J)	89	+	6
Gen Accident	591	+	18
Gestetner	130	+	7
Glaxo	834	+	21
GrWestern Res	32	+	5
Holmes Marchnt	35	+	4½
Lee (Arthur)	156	+	16
Micro Focus	2418	+	58
Sainsbury (J)	481	+	15
Falls			
Avon Rubber	509	–	31
Carclo	210	–	13
Danka Business	735	–	35
Eurotunnel	395	–	16
ICI	1253	–	21
Ratners	35	–	5
Unigate	353	–	12

German institutions pay DM985m to Italian private-sector insurer

Fondiaria offloads 21% stake in AMB

By Haig Simonian in Milan and David Waller in Frankfurt

FONDIARIA, the Italian insurance group controlled jointly by Ferruzzi and the Gaic holding company, yesterday sold its 21 per cent stake in Aachener und Münchener Beteiligungs (AMB) to a group of German institutions for DM985m ($616m).

The deal concludes a long-running battle of wills between the formerly-allied Italian and German insurers, and provides a much-needed cash injection to Fondiaria, Italy's third-biggest private-sector insurer.

The buyers are Deutsche Bank (10 per cent), Allianz (5 per cent) and Dresdner Bank and Münchener Rückversicherungs, which are taking about 3 per cent each.

The deal follows months of secret negotiations over the stake, the existence of which had threatened to disrupt co-operation between AMB and Assurances Générales de France (AGF), the French state-owned insurer which owns just over 25 per cent in the German insurance company.

Fondiaria acquired the stake during 1991-1992 when AMB's management was keen to form a three-way European alliance including Royal Insurance of the UK. But these plans failed to come to fruition, partially because of AGF's determination to build up its AMB holding in the face of initial opposition from the German company's management.

Hostilities between AMB and AGF ended last summer and Fondiaria tried, unsuccessfully, to use its holding to block shareholder approval of the co-operation agreement between the French and German companies.

The agreement involved the sale of AMB's holding in BfG Bank, Germany's sixth largest bank, to Crédit Lyonnais in a transaction valuing BfG at DM2.1bn.

The deal is a much-needed lift to Fondiaria, which has suffered falling profits from difficulties in the Italian market and growing debts from foreign ambitions.

Last year, Ferruzzi, which is facing a heavy debt burden, warned it intended to take a closer involvement in Fondiaria's affairs. The changes culminated in the departure earlier this year of Mr Alfonso Scarpa, Fondiaria's managing director and architect of foreign expansion plans.

Although Ferruzzi has emphasised its determination not to sell Fondiaria, a disposal is still widely expected by analysts in view of the parent company's severe debt problems.

A Fondiaria official said the deal was "part of the rationalisation process of Fondiaria's activities". He gave no indication was to whether the divestment might be followed by other disposals.

Among possible scenarios are the disposals of the group's Milano and La Previdente insurance subsidiaries.

Billiton fits drive to establish substantial mining business outside South Africa

Gencor brings dream princess out of her Shell

By Kenneth Gooding, Mining Correspondent

GENCOR has for years been searching for assets that would provide it with the core of a substantial business outside South Africa. "We have kissed a lot of frogs but not one has turned into a princess," is the way Mr Derek Keys, the former chairman, summed up this apparently hopeless quest.

But now the search is over. Gencor believes Billiton, a mining and metals company with a 114-year history but which has been buried within the Royal Dutch Shell oil group since 1970, has all necessary qualifications.

Ironically, although virtually every other oil company has baled out of mainly disastrous forays into mining and metals, Shell seemed determined to persevere with Billiton even though low metal prices and various write-downs and provisions pushed it into a $75m net loss last year against a $12m profit in 1991.

However, Gencor's unsolicited offer, which analysts suggest was probably more than the $1.8bn book value of the Billiton assets, was too attractive for Shell not to give it serious consideration.

If everything went smoothly, Gencor eventually would have interests in two mining and metals businesses.

The one in South Africa would retain most of the group's assets there – including those producing gold, platinum, coal, manganese, chrome, ferro-alloys, stainless steel, aluminium, and granite.

Billiton would be used to create a second, publicly-quoted international group mining gold, nickel and zinc in six countries, with exploration activities all over the world, a global metals marketing and trading network, and joint ventures in alumina refining in Brazil, Australia and Surinam and aluminium smelting operations in Brazil.

To this Gencor would add its existing operations outside South Africa – 25 per cent of Consolidated Rutile in Australia and nearly 100 per cent of Sao Bento in Brazil and, probably, its half-share of Richards Bay Minerals in South Africa.

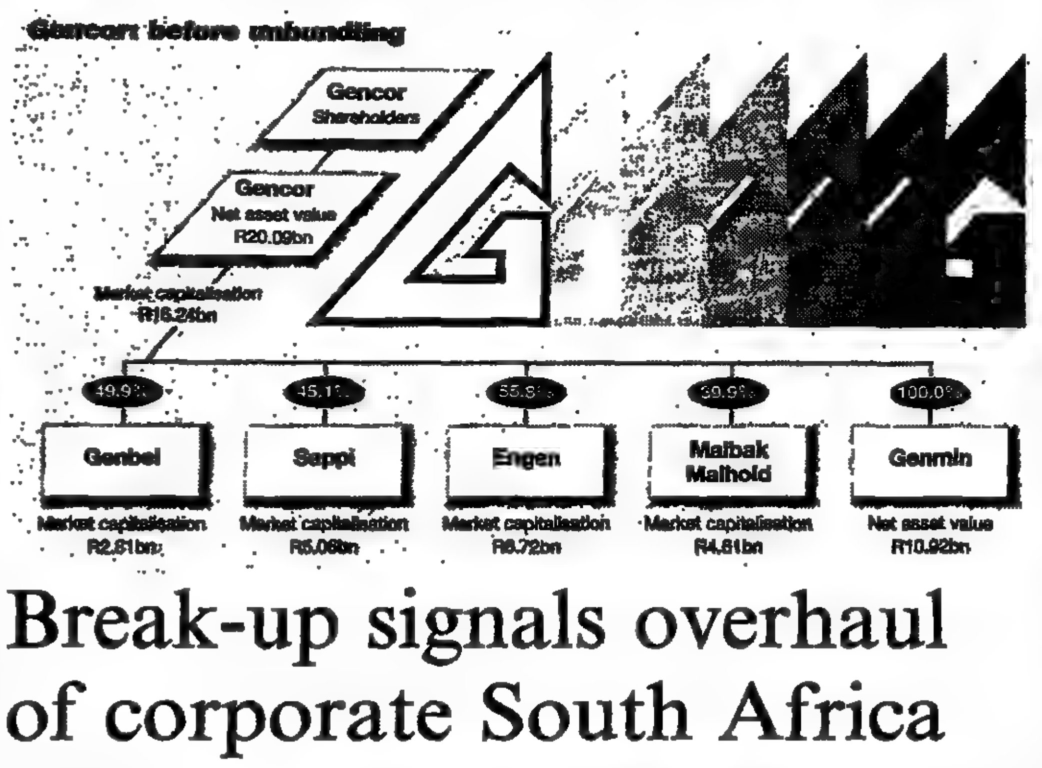
This would be a medium-sized mining and metals group in world terms and without a comparable rival, although it would have some similarity to Minorco, owned by Anglo American of South Africa.

Gencor probably chose Billiton as a "princess" because of the alumina and aluminium interests which account for about 65 per cent of its business.

Gencor has great faith in aluminium and is backing a $2bn project for Alusaf to build a 466,000-tonne aluminium smelter, the western world's biggest ever.

But there is much to be done.

Shell said talks would last several months. Also, some of the juicier assets Gencor seeks are in joint ventures where Billiton's partners have pre-emptive rights to any sale and it is very unlikely to get them all.



Break-up signals overhaul of corporate South Africa

By Philip Gawith in Johannesburg

YESTERDAY'S announcement by Gencor, South Africa's second largest mining house, that it plans to unbundle came as no surprise, but this does not diminish the significance of an event whose political and business ramifications are likely to be widespread.

It almost certainly heralds the beginning of a gradual, but far-reaching, overhaul of corporate South Africa. Over the next 10 years and beyond, groups such as Anglo American-De Beers, South African Breweries, Rembrandt, Anglovaal, Old Mutual and Sanlam, which dominate South African corporate life, are likely to be significantly restructured.

Two factors will determine the pace and extent of this restructuring: the vigour with which a future government might pursue anti-trust policies, and the extent to which corporate South Africa voluntarily restructures, for self-preservation or economic self-interest.

The African National Congress, likely to be the largest partner in any future government, is committed to introduce anti-monopoly, anti-trust and mergers policies weaken the influence of the country's largest groups, and promote private sector efficiency.

There is also considerable support for unbundling in the investment community where many hold the view that the economy has become too concentrated, stifling initiative.

With the exception of Gencor, however, corporate South Africa has shown little enthusiasm for unbundling. Most captains of industry are not convinced unbundling has economic merit. Anglo American has defended its size with vigour, sophistication and some success. Ultimately, however, these arguments, couched mostly in economic terms, are unlikely to sway the ANC, which objects to the degree of corporate influence exercised by a few whites.

Yesterday's announcement is only the first salvo in a long debate. And practical barriers to unbundling have to be addressed – most obviously, who, other than the large groups, will buy the assets freed.

Gencor's announcement will force other large groups to take a harder look at unbundling, if only because the onus of proof has shifted towards those favouring the status quo.

ICI cuts size of Zeneca rights

By Maggie Urry, Paul Abrahams, and Norma Cohen in London

IMPERIAL Chemical Industries has cut the size of the rights issue for Zeneca, the bioscience business being demerged from the chemicals group. However, the price is expected to be towards the top end of forecasts at about 590p to 600p.

A meeting of the board and underwriters to confirm the terms will be held today. They will be announced at 7.30am.

It is expected that the issue will have been priced to raise slightly less than the £1.3bn ($2bn) planned, as the London stock market is concerned at the level of cash calls on it. The government's BT 3 sale, likely to raise over £5bn, is due in July.

Rather than the expected 1-for-3 issue, the terms will probably be set at 3-for-10. That could cut the amount raised to around £1.25bn after expenses.

The main difficulty in pricing the issue has been that the demerged shares of new ICI and Zeneca have yet to start trading, giving no base to value the rights shares.

There were still doubts that the issue would be warmly received. "At 600p this looks like a second division player being sold at a first division rating," a pharmaceuticals analyst said.

Institutions said they would be unwilling to sub-underwrite the issue at more than 610p. They wanted the price set to give a yield above the market average to offset Zeneca's perceived low growth prospects. The company has already said it will pay a 27.5p net dividend this year.

Grey market trading in the demerged and the rights shares will start at 2.30pm today, when the sub-underwriting should have been completed. It also coincides with the start of business in New York.

Official dealings in the new shares are due to start on June 1, so long as ICI shareholders approve the demerger at a special meeting on May 28.

A plan to "recycle" rights shares, through an international syndicate of brokers, is expected to meet only modest demand.

US investors, one of the main target audiences for Zeneca's roadshows, are thought to be more interested in the new-ICI business. At present, US investors favour cyclical rather than drugs stocks. The latter have been hit by uncertainty over US health care reforms.

Lex, Page 16

Cost cutting helps Ericsson swing back into the black

By Christopher Brown-Humes in Stockholm

STRONG DEMAND and cost cutting helped Ericsson, the Swedish telecommunications group, swing back into profit in the first quarter of this year.

The group, which has announced a series of large new orders recently, said pre-tax profit was SKr428m ($56m), compared with a SKr363m loss in the first three months of 1992.

However, the results fell short of stock market expectations and the company's B shares slid SKr9 to SKr291.

The group reaffirmed its expectation of an improved result for the whole of this year. In 1992 the group recorded a profit of SKr1.30bn.

First-quarter orders rose 34 per cent to SKr17.5bn while sales – helped by the weaker Swedish krona – increased 36 per cent to SKr12.9bn.

Ericsson's orders have risen for six successive quarters – most impressively in the radio communications division, which houses its mobile phone operations. Order intake here increased by 58 per cent in the quarter.

Radio communications saw sales rise to SKr4.76bn from SKr2.73bn, while public communications lifted sales to SKr5.03bn from SKr4.16bn. A major growth area for the company has been Asia, where sales rose to SKr2.15bn from SKr935m.

China is now the company's fifth largest market, accounting for 7 per cent of sales, compared with 1 per cent last year.

Mr Lars Ramqvist, chief executive, said the group's order backlog of SKr45bn at the end of the first quarter was its highest ever, and SKr7bn more than at the beginning of the year.

He said the krona's depreciation had so far had little impact on the company's income. "That positive effect will be seen first during the second half of 1993."

Mr Ramqvist linked the company's success to its development of products: "If we had not conducted applied research and development, Ericsson would have been eliminated by the tough international competition. This is particularly the case in the global recession, which we have not seen the end of yet."

Income per share was SKr1.25 in the quarter, compared with a SKr2.44 loss in the same 1992 period.

Reed Elsevier eyes purchases

By Raymond Snoddy in London

REED ELSEVIER, the international publishing and information group, has signed a letter of intent to purchase Official Airline Guides in a deal worth $425m.

The move came on the same day as the company, owned jointly by Reed International and Elsevier, reached an agreement to acquire at least a controlling interest in Editions Techniques, the French legal publishers. No price was disclosed but it is believed the agreement would value Editions Techniques at £75m ($115m).

These are the first two planned acquisitions to be announced since Reed International and Elsevier merged at the beginning of this year. One of the reasons behind the merger was to increase the group's ability for international acquisitions.

However, the OAG letter of intent, signed with Price Waterhouse, the joint administrators of Maxwell Communication Corporation, is non-exclusive and is being seen as a way to find out whether Reed Elsevier, which already owns ABC airlines guides, would be qualified to bid under anti-trust legislation.

"There's a long way to go yet. This is just getting into the paddock," one of those close to the negotiations said yesterday.

Mr Alan Jamieson of Price Waterhouse said yesterday: "If a better bid comes forward we are free to accept that bid. If we have no better bid we are happy to move to contract at that price."

The assets on offer, which include travel magazines as well as an airline information service, are similar to those bought by Mr Robert Maxwell from Dun & Bradstreet for $750m in 1988.

Mr Guy Lamming, media analyst at stockbrokers James Capel said last night that both deals looked good for Reed Elsevier.

Editions Techniques is the largest general legal publisher in France with a workforce of 500 people and sales last year of around £48m. Its best known publication is the series Juris Classeurs which covers most aspects of law and includes 80 titles in 400 volumes. The family-owned company also owns the medical publication Encyclopedie Medico Chirurgicale.

The size of Reed Elsevier's ultimate stake in the company will depend on further negotiations with members of the family.

Lex, Page 16

EniChem sinks deeper into red with L1,560bn losses

Haig Simonian in Milan

ENICHEM, the loss-making Italian chemicals group controlled by the state-owned Eni energy and chemicals concern, moved deeper into financial difficulties with a L1,560bn ($1.02bn) loss last year.

The result, more than double the L742bn lost in 1991, reflected the recession, which has cut demand for primary petrochemical products, and continuing severe price competition. Sales, adjusted for disposals, fell by 8.2 per cent to L11,155bn

EniChem said prices for primary petrochemicals products had fallen between 10 per cent and 20 per cent last year as a result of weak demand and overcapacity. The Italian market had been hit particularly hard owing to the slowdown in the vehicle, building and textile industries.

EniChem's losses, which included L300bn in provisions for environmental protection measures, came in spite of indications last year that the group might be able to contain losses to within L1,000bn due to cost-savings and a big cash injection from the Eni parent company.

However, the group's finances appear to have deteriorated steadily during the year.

Operating losses deepened by L231bn to L308bn in spite of lower raw material prices and attempts to contain fixed costs.

Meanwhile, interest costs, adjusted for disposals, rose by a further L131bn to L893bn in 1992. Total group debt rose to L7,391bn from L7,004bn, in spite of the cash injection.

EniChem has been struggling to restructure to reduce costs. The workforce was cut by over 4,000 employees last year, contributing to a L80bn saving on the wage bill.

In July, formal approval is due for a plan to merge 10 wholly-owned subsidiaries with the EniChem parent company, which is forecast to produce annual savings of about L300bn.

Packer sells 8% stake in Westpac Banking

By Emilia Tagaza in Melbourne

MR KERRY Packer, the Australian media entrepreneur, has sold an 8 per cent stake in Westpac Banking Corporation to Lend Lease Corporation, the financial services group.

The shares changed hands at A$3.50 each for a total transaction of A$490m (US$352.5m). Mr Packer said yesterday his company, Consolidated Press Holdings, would make an A$100m profit on the disposal.

The purchase increases the Lend Lease group's stake in Westpac to almost 10 per cent. The group, which is likely to go up to 12 per cent by buying Consolidated Press's remaining 2 per cent, has been granted federal government approval to eventually take its shareholding in Westpac to 15 per cent.

The deal leaves Westpac with two large financial institutions as dominant shareholders. AMP Society controls 15 per cent of the bank.

Lend Lease has agreed to pay Consolidated Press half of any profit if it sold Westpac shares over the next 12 months, up to a maximum of 50 cents a share.

Mr Packer accumulated his 10 per cent Westpac stake late last year, prompting an invitation from the bank to take a seat on the board. However, Mr Packer resigned from the board in January, just one week after joining, following a disagreement over the bank's recovery programme.

Mr Packer said his company had been approached by Lend Lease late last week. He said Lend Lease, which included a big insurance business through MLC Life and Australian Eagle, would bring added stability to Westpac's shareholder base.

After a failed A$1.2bn rights issue last May and a A$1.56bn loss for the year to September 1992, Westpac's share price was trading at A$2.40 last November against a pre-rights issue peak of A$4.63 in January 1992.

Poor term at French bank

By Alice Rawsthorn in Paris

Jean Yves Habérer: problems in France during first quarter

CREDIT Lyonnais, the troubled French banking group which is a candidate for privatisation, experienced problems in France during the first quarter of this year, according to Mr Jean Yves Habérer, chairman, although its international operations fared well.

Mr Habérer, who has been criticised for his expansion and lending strategy, said the group, which fell into the red last year, had a bad first quarter in its domestic market due to the economic recession and rise in business failures.

However, Crédit Lyonnais's commercial banking interests outside France produced a good performance, according to the chairman, with BfG, the German bank in which it recently acquired a controlling stake, performing satisfactorily.

Crédit Lyonnais, one of France's largest commercial banks, has been in trouble for some time, mainly because of its exposure to a series of corporate collapses.

Last year, these problems were aggravated by the economic squeeze in France which left Crédit Lyonnais very vulnerable to property and small companies, two of the weakest areas of the economy. It swung from net profits of FFr3.2bn in 1991 to a net loss (the first since 1974 and the third in its history) of FFr1.8bn ($333m), on net banking income of FFr48.9bn.

The announcement of Crédit Lyonnais's first-quarter problems in France comes as the new centre-right government is finalising plans to privatise a number of state-controlled companies. Crédit Lyonnais is believed to be a candidate, although analysts suspect that its problems may force the government to delay the sale until after that of Banque Nationale de Paris.

Procordia falls 20% in first term

By Christopher Brown-Humes in Stockholm

PROCORDIA, the Swedish pharmaceutical and food group, yesterday blamed lower Swedish tobacco sales, losses from hotels and one-off lease settlement costs for a 20 per cent fall in first-quarter profits.

Profits after financial items fell to SKr893m from SKr1.12bn in the same 1991 period, disappointing stock market expectations. The B shares fell Skr4 to close at SKr169.

Sales were virtually static at SKr9.55bn ($1.3bn), although on a pro-forma basis they rose 10 per cent. Income from ongoing operations fell 4 per cent to SKr963m from SKr1.01bn.

The group said a 20 per cent fall in Swedish tobacco sales in the first quarter was a significant reason for the downturn – the result of hoarding prior to an increase in tobacco tax at the end of last year.

It saw an increase in one-off costs to SKr83m from SKr3m, largely because of an early settlement of a lease. It incurred a SKr150m deficit from its share of losses in the Sara Travel and Hotel group, in which it holds 46.4 per cent.

On the plus side, the group benefited from currency gains totalling SKr180m. The weaker Swedish currency had a particularly positive impact on Kabi Pharmacia, which increased sales by 16 per cent to SKr3.95bn from SKr3.40bn and lifted lifted operating income to SKr779m from SKr746m. Sales growth was particularly marked in the UK and Spain, although prices were generally under heavy pressure.

Last week, Kabi finalised a deal to buy the Italian pharmaceutical group Erbamont in a deal worth up to $1.3bn.

Procordia's second-biggest unit, United Brands, lifed sales by 47 per cent to SKr1.96bn from SKr1.33bn, but operating income slumped 43 per cent to SKr118m from SKr207m. The fall came in spite of the inclusion of Swedish Match, which the group acquired last August, and reflected the drop in income from tobacco.

Fila confirms NYSE listing plan

By Haig Simonian

FILA, the Italian sports shoes and clothing maker owned by the Gemina holding company, has confirmed plans to quote 30 per cent of its shares on the New York Stock Exchange.

The move, which follows a similar decision last month by Gemina to list shares in the Natuzzi furniture group, reflects growing disenchantment by Italian companies with the domestic stock market and their readiness to make initial public offerings abroad.

It is believed similar plans are being considered by Benetton Sportsystem, the fast-growing sports goods group being assembled by the acquisition of famous brands by the Benetton family. Bankers believe a listing for the group, which had sales of $606m in 1992, could come in the second half of next year.

Fila, one of Italy's best-known sports brands, has branched out from clothing into footwear. The development has been accompanied by a marked internationalisation of its business, with the US accounting for 58 per cent of sales.

Gemina will place 37.5m Fila shares, held by its Gemina Investments subsidiary, in New York in a deal led by Salomon Brothers and Goldman Sachs.

The shares represent 30 per cent of Fila's capital. Gemina Investments will retain 6 per cent, while the Gemina parent company controls the remainder. The offering will be made via 7.5m American Depositary Shares, each comprising five Fila shares.

Separately, Gemina Investments is placing 10 per cent of its 15 per cent stake in Natuzzi as part of an initial public offering in the US. The deal is part of a placing of 30 per cent of Natuzzi's stock in the US.

Treuhand concludes shipyard sale

By Judy Dempsey in Berlin

THE Treuhand, the agency responsible for the privatisation of the eastern German economy, yesterday concluded the sale of the big Neptun shipyard located at the northern port of Rostock.

The yard, a big lossmaker, was sold partly to Hanse Holding, which is part of the Bremen-based Bremer Vulkan Verbund, and partly through a management buy-out. The Treuhand will take over the debts, which the agency yesterday would not disclose.

Although Treuhand officials declined to reveal the selling price, it said Bremer Vulkan was committed to investing DM350m ($219m) and guaranteeing 1,320 jobs. At present, about 1,450 people are employed at the shipyard, which, before 1989, used to employ more than 7,000.

The security of the yard, at least in the short term, might reassure the workforce, which as members of IG Metall, Germany's powerful engineering union, have been on strike since last week in support of higher wage claims.

Treuhand officials indicated that Bremer Vulkan would not be using the yards specifically for shipbuilding, particularly since there was overcapacity in Germany. However, the yard could provide base for repairs and spare parts.

Inchcape buys 15% of Gestetner

By Andrew Bolger in London

INCHCAPE, the international services and marketing group, is to buy a 15 per cent cent share of Gestetner Holdings, the office and photographic equipment distributor, plus an option to raise its stake to 25 per cent.

Inchcape is buying the initial stake for £37.9m ($59.2m) from Chiltern Capital, an Australian company which took control of Gestetner in 1986. The Australians have sold a large stake in Gestetner to Ricoh, the Japanese office equipment manufacturer, which owns 29.9 per cent of the group.

Gestetner is the world's largest independent distributor of office equipment, using its own brand names of Gestetner, Nashuatec and Rex Rotary. Much of it is produced by Japanese manufacturers. It derives substantial revenue from service and supplies.

Mr Basil Sellers, Gestetner's Australian chairman and chief executive and a large shareholder in Chiltern, will give up executive responsibilities immediately. He will continue as chairman until an independent successor is appointed.

Lex, Page 16;
Details, Page 23

Sprecher holds loss to SFr9m

By Ian Rodger in Zurich

SPRECHER and Schuh, the Swiss electrical engineering group, reported a loss of SFr9m ($6m) for 1992 compared with a loss of SFr9.5m in 1991.

The loss was mainly due to the weakness of the group's low-voltage electromechanical controls business, which has since been sold to Rockwell International of the US.

As a result of the cash proceeds from the disposal, the company proposes increased dividends of SFr50 per registered share and SFr250 per bearer share. Dividends in future will be similar to 1990's SFr16 and SFr80 respectively.

Sakura merger with US clearer gains approval

By Laurie Morse in Chicago

SAKURA, the Japanese bank, and Dellsher Investment, the Chicago futures and options clearing firm, have received US Federal Reserve approval to merge.

Sakura, which was formed in 1990 with the merger between Mitsui Bank and the Taiyo Kobe Bank, offered to become Dellsher's majority shareholder in 1991, but the deal was delayed by US regulatory reviews.

The new firm, Sakura Dellsher, will be a clearing member of the CME and the Chicago Board of Trade. Sakura's consolidated assets of $449bn will give strong backing to Dellsher in the derivatives business, which demands large amounts of capital.

Dellsher, owned by Mr Leo Melamed, one of the founding fathers of Chicago futures, is a small firm with an estimated $4m to $5m in assets.

Mr Kenichi Suematsu, president of Sakura, said: "The competence of Dellsher, coupled with the unique qualifications of Mr Melamed, will afford our clients with outstanding access to global financial futures and options markets."

Toshiba and NEC link with US chip group

By Michiyo Nakamoto in Tokyo

TWO of Japan's largest semiconductor manufacturers are teaming up with a US company to develop the next generation microprocessor to serve as the heart of the most powerful desktop computers.

NEC and Toshiba – Japan's largest semiconductor manufacturers, and keen competitors – are joining forces with MIPS Technologies, a designer and supplier of reduced instruction set computing (Risc) microprocessor technology, to develop an advanced microprocessor based on MIPS' technology.

The alliance highlights a growing tendency in the semiconductor industry to share across national borders the spiralling costs and huge resources that are needed to develop advanced semiconductors.

The three companies will jointly fund research and development, and collaborate on process development. Other design experts also are expected to take part the development project.

MIPS hopes the new microprocessors will go on sale in 1994.

The US group will be responsible for the architecture of the new microprocessors, while NEC and Toshiba will be responsible for other aspects of development and implementation, and for volume production.

The move also reflects NEC's and Toshiba's recognition of the importance of open architectures in future semiconductor technology.

The three plan to spend $150m during the programme, but NEC estimates that its investment over the next few years will amount to about Y10bn ($90m).

The alliance will compete directly with five other groups that have rallied around other Risc chips, with each hoping to become the world standard.

They are IBM and Motorola, which have joined forces around the PowerBook; Digital Equipment and supporters of its Alpha chip; Sun Microsystems and its backers; Hewlett-Packard and Hitachi; and Intel.

Home advantage from overseas experience

Japan's banks have accumulated expertise from European markets, says Emiko Terazono

ALTHOUGH tough times at home are forcing Japanese financial institutions to curb overseas expansion, some banks admit they still have much to learn from western markets.

Overseas securities subsidiaries are of increasing importance for Japanese banks, which are now able to set up domestic securities operations after the easing of barriers between the banking and securities industries last month.

The Industrial Bank of Japan, one of the four banks being allowed to set up securities arms, says experience at IBJ International, its UK securities subsidiary, will give it an advantage in developing domestic operations.

IBJI, which has been in London for 18 years, says the European capital markets have been a nurturing ground for the Japanese banks enabling them to accumulate expertise from the European capital markets.

Japanese banks, which were previously banned from the securities business by article 65 of the Securities and Exchange Law, set up overseas securities operations to gain exposure to the securities business.

The country's long-term credit banks and Norinchukin, the central agricultural bank, will be the first to obtain access to the securities business. The banks' affiliates, however, will be kept from the lucrative stock market, and will only be able to underwrite corporate and equity-linked bonds, and deal in straight bonds.

IBJ is expected to set up a securities operation with Y30bn in capital and 130 staff

In spite of the disappointment of the banks at the tighter-than-expected restrictions by the ministry of finance, Japanese corporations hope that the banks will bring in more innovation and help develop the country's fledgling capital markets.

IBJ is expected to set up a securities operation with Y30bn ($270m) in capital and 130 staff. Mr Toshiki Tobe, managing director at IBJI, says more than 10 people with experience at the London securities arm will be transferred to the new Japanese securities affiliate. He hopes the new domestic subsidiaries will change the closed and non-competitive nature of the domestic bond market, currently dominated by the "Big Four" securities houses – Nomura, Daiwa, Nikko and Yamaichi.

"We want to bring in proper syndication methods into the Japanese market," says Mr Tobe. In the past, underwriting responsibilities were usually divided between the big four, where relationships between the issuer played a larger part than competitive performance.

The Tokyo arm of Morgan Stanley managed to become the first foreign leading underwriter for Nippon Telegraph and Telephone by introducing the fixed-price re-offering method.

Japanese companies also hope that the newcomers will help the development of a liquid secondary market as in the Eurobond markets. Japanese institutional investors still see straight bonds as investments to be kept till maturity, and while US houses and leading domestic brokerages have started market making of major issues, the secondary market remains almost non-existent due to lack of interest among investors.

Corporations hope the banks will help develop the country's fledgling capital markets

Companies also hope the entrance of the banks' subsidiaries will help the development of a settlement system for the corporate bond market.

Meanwhile, IBJI is keen to expand its operations in London, and expects the domestic securities business to bring in more European business opportunities, such as sales of Japanese bonds to European investors. Unlike most Japanese securities houses which have resorted to Japanese investors, IBJI is cultivating overseas investors, especially in Europe.

The company wants to improve its credit information services on Japanese companies, especially those which issue government guaranteed bonds. This will be a core part of the business.

Unlike the Japanese securities companies, which are cutting overseas overheads, Mr Tobe says IBJI will continue to expand in the City of London. The securities house aims to increase its current operation of 300 to 500 in the next four years by increasing sales, trading and support staff.

Mr Tobe also dismisses suggestions that the recent bombs in the City of London will prompt an exodus of Japanese financial institutions. "London is too important, especially as a learning ground," he says.

Hong Kong to block 'back-door' exchange listings

By Simon Holberton in Hong Kong

HONG KONG'S regulatory authorities last night moved to stem the rush of mainland Chinese companies seeking a stock exchange listing by blocking "back-door listings" on Hong Kong's stock market.

The Securities and Futures Commission (SFC) and the Hong Kong Stock Exchange issued a joint statement warning financial advisers and companies that future deals would be scrutinised closely and stiff penalties applied to those who breached listing and takeover rules.

Since October, large mainland Chinese state enterprises have acquired control of eight Hong Kong companies. In two of the cases, arms of the People's Liberation Army have been involved in the transactions.

A "back-door listing" is a convenient way of avoiding the HKSE's requirements for new listings. For mainland companies it is also a way of avoiding Beijing's approval system for foreign listings.

Typically, a mainland company acquires a small, third-line, stock in Hong Kong and proceeds to sell it mainland assets financed by placements and rights issues.

This practice has raised concerns in Beijing with the China Securities Regulation Commission, China's fledgling corporate watchdog, which has responsibility for the development of securities markets on the mainland China.

The SFC said it would take "the strongest action open to it" under the colony's takeover code if it found that a controlling shareholder selling to another party had received a benefit unavailable to minority shareholders.

This action would include forcing the buyer to make available to all shareholders the same level of compensation, and withdrawing the licence of merchant banks and other financial intermediaries who advised on the deal.

The stock exchange said asset injections into a newly-acquired company might result in the company being treated as a new applicant for listing, or result in its listing status being reviewed more generally.

It also said it might treat transactions between a listed company and former controlling shareholders as connected transactions. In that event a vote of minority shareholders would be required for a transaction to take place.

● The SFC could limit the number of shares investors can apply for in new issues in a bid to curb massive over-subscriptions, Reuter adds. "We are studying the situation ... and that's one possibility," a spokesman said. The commission's findings could be published next month.

Taiwan may join BMW Rolls-Royce in aero-engine venture

By Andrew Baxter

BMW Rolls-Royce, the Anglo-German aero-engine joint venture, has been talking to the Taiwanese government about possible involvement by the Asian country in future developments of its BR710 series of medium-thrust engines.

Taipei said yesterday that Sir Ralph Robins, chairman of Rolls-Royce, met Mr Lien Chan, prime minister, on Monday to discuss the possibility of Taiwanese participation in the project.

Taiwanese aerospace officials said discussions were still in a very early stage, with the form and size of any investment unclear.

In London, Rolls-Royce said Sir Ralph was in Taipei on behalf of BMW Rolls-Royce. The discussions were one of a number that the joint venture company is having with companies about future developments of the engine.

A venture with BMW Rolls-Royce could represent the second significant step in Taiwan's drive to develop its fledgling aerospace industry.

In January, Taiwan Aerospace, which is 29 per cent owned by the government, agreed to form a venture with British Aerospace to make regional passenger jets to be assembled in the UK and Taiwan.

A proposal for Taiwan Aerospace to invest $2bn for a 49 per cent stake in McDonnell Douglas's civil aircraft business fell through last year.

The joint venture between BMW and Rolls-Royce, announced in May 1990, is a big step towards strengthening the European aero-engine industry.

The venture is developing the BR710 family of engines – designed for business and regional jets – at a plant outside Berlin. Since September it has won orders from Gulfstream of the US and the Canadian Bombardier group.

Bank forces Isetan chief to quit

By Charles Leadbeater in Tokyo

THE PRESIDENT of Isetan, Japan's sixth-largest department store, yesterday became the latest in a growing list of senior executives who have been forced out of their posts by a leading bank.

Mr Kuniyasu Kosuge, Isetan's president for nine years, is to become the group's honorary chairman. The reshuffle is thought to reflect Mitsubishi Bank's disenchantment with his performance. Mitsubishi is Isetan's main bank.

Isetan, in common with other Japanese department stores, is suffering from the decline in consumer spending in Japan just as it is paying for ambitious expansion in the late 1980s.

However, Isetan has also become embroiled in controversy over its ownership. Mr Kosuge's departure is thought to be the culmination of a long power struggle with Mitsubishi bank over Isetan's ownership.

About 29 per cent of Isetan's stock is owned by Shuwa, a financially-troubled real estate company. Ito Yokado, a leading supermarket group, last year attempted to buy into Isetan through the purchase of the Shuwa stake. Such a deal would have broken the traditional divide between department stores and supermarkets in Japan. However, the sale fell through, thwarting plans to strengthen Isetan's balance sheet.

The replacement of Mr Kosuge with Mr Kazumasa Koshiba is likely to clear the way for Mitsubishi bank to lead a consortium to finance the purchase by Isetan of the Shuwa stake.

US brokerage to sell off energy partnerships

By Patrick Harverson in New York

PRUDENTIAL Securities, the fourth-largest brokerage firm in the US, is to sell 35 energy partnerships to a US petroleum company for $557m. The deal is an important step towards resolving the problems of Prudential's troubled limited partnership business.

If the offer from Parker & Parsley Petroleum is accepted, $448m will be paid directly to investors. This means that, along with the $665m Prudential has already distributed, investors could receive about 76 cents on the dollar for their initial investment of $1.45bn.

The partnerships, which invested in US oil and gas properties, were popular in the 1980s and sold aggressively by big brokerage firms, particularly Prudential. But after tax laws changes and depression in the energy and property businesses, the partnerships racked up heavy losses.

Prudential faces a class-action lawsuit filed by thousands of investors who lost money in the partnerships, and it is the subject of a Securities and Exchange Commission investigation into whether the firm improperly sold the partnerships to investors.

The legal battle has cost the firm's parent, Prudential Insurance, more than $400m, which has been set aside to cover the cost of fighting the lawsuits.

Although neither the class-action lawsuit nor the SEC investigation will be directly affected by the deal with Parker & Parsley, Prudential will soon offer investors who filed the class-action suit a new settlement in light of the sale.

News of the deal, which if accepted will boost Parker & Parsley's proven oil and gas reserves by 75 per cent, was well received on Wall Street. In early trading yesterday, the company's shares were up $1 to $26 on the New York Stock Exchange.

Benefit turns sour for Bronfman managers

By Bernard Simon in Toronto

THE business empire controlled by Toronto's Bronfman family is scrambling to unravel an executive compensation scheme which held the promise of rich rewards, but has turned into a debilitating burden for hundreds of managers.

The scheme was based on the premise that managers perform best when they are substantial shareholders in their companies. But plunging share prices of many Bronfman companies have left the executives at best uncertain about the future value of their portfolios, and at worst facing possible financial ruin.

Noranda, the Bronfman-controlled resources group, last Monday allowed 50 managers to sell 1.6m shares they owned under the compensation scheme. The proceeds, totalling C$30m (US$23.8m), have been used to repay company loans used to finance the share purchases.

Mr Courtney Pratt, senior vice-president at Noranda, said yesterday the sales were allowed "to deal with the uncertainty and risk which a number of people felt about the future".

Compensation packages at Bronfman-controlled companies have typically comprised relatively low salaries, but have required managers to buy large parcels of shares financed by corporate loans.

The expectation was that they would reap hefty capital gains as share prices rose. Interest on the loans would be paid out of dividends.

According to estimates by the Toronto Globe & Mail, employees have borrowed at least C$250m from companies in the Bronfman orbit over the past decade. Some have also taken out large bank loans.

The Noranda managers are among the luckier ones. They sold their shares at C$20.25 each. The biggest parcel was bought in 1987 at C$18, and most have made a small profit.

The strains in other Bronfman companies were evident however, in last week's revelation by Hees International Bancorp, the group's merchant banking arm, that it lent C$5.2m to seven senior executives last year to help them refinance bank loans used to acquire shares.

Several other Bronfman holding companies, including Edper Enterprises, Brascan and Trilon Financial, have made similar advances.

Without the loans, the executives, who include the Bronfmans' chief strategist, Mr Jack Cockwell, would either have had to put up extra collateral or begin selling their stock.

The most intractable problem is at Royal Trustco, the financial services group whose operations are being sold to Royal Bank of Canada. A condition of the deal is that RT must find a way to "unfetter" 175 managers encumbered by share-purchase loans.

RT's share price has plummeted from a peak of almost C$36 in 1986 to 49 cents. Mr Pratt said the extent of most of the loans "is well beyond the capacity of virtually anyone to repay".

But any bail-out is complicated by Canadian tax rules, which do not allow a capital loss to be offset against a taxable benefit.

Equitable returns to the black in first term

By Nikki Tait in New York

THE EQUITABLE, the US life insurer in which France's Axa group holds a 49 per cent equity stake, yesterday reported an after-tax profit of $31.8m for the three months to end-March. This compared with a loss of $3.7m in the same period of 1992, before one-off items.

The insurer said the first-quarter figure included $7.3m of investment gains and restructuring charges of $3.9m. Last time, the net loss stemmed partly from the inclusion of $24.3m of investment losses and restructuring charges of $1.9m.

The net profit would have been higher but for continued losses from the disability income business. This produced a net loss of $31.6m in the 1993 quarter, compared with a deficit of $4.5m in the same period of 1992.

The insurer said its core insurance business – after taking out disability income losses and investment transaction gains – made a net profit of $21m.

On a similar basis, the comparable 1992 figure would have been a $4.8m profit.

Equitable's "investment services" operations, which include the Alliance Capital fund management operation and Donaldson, Lufkin & Jenrette brokerage, recorded an after-tax profit of $46.4m, slightly down on the $49.3m in the same period of 1992.

On the investment side, The Equitable said it had stepped up the income yield on its main general account portfolio to 7.74 per cent, compared with 7.44 per cent a year ago. It attributed the improvement to a shift to longer-term fixed maturity investments, and better returns for property-related holdings.

"Problem" commercial mortgages totalled $299.1m at the end of the first quarter, against $388.4m at the end of 1992.

Mixed results at US stores

By Nikki Tait

THE LIMITED, one of the largest clothing retailers in the US, yesterday reported a fall in first-quarter profits to $44.2m from $51.5m after tax. The 1992 figure, however, included a $9m one-off gain.

The Limited said first-quarter sales increased 7 per cent, to $1.518bn. Operating profits fell by 1 per cent to $85.5m.

Dillards, the Arkansas-based stores group, reported after-tax profits of $48.2m in the quarter to May 1, up from $45.1m. Sales were $1.16bn, against $1.03bn, with "same-store" sales increasing by 3 per cent.

Ann Taylor Stores, the troubled New York-based womenswear retailer, reported first-quarter up from $114.7m to $120.2m, while after-tax profits advanced from $2.14m to $3.29m.

Apple moves towards 'open' software

By Louise Kehoe in San Francisco

APPLE Computer is developing technology to enable applications programs designed for its Macintosh personal computers to run, without modification, on Unix workstations from Sun Microsystems, Hewlett-Packard and International Business Machines.

The move represents a reversal of Apple's long-standing strategy of protecting its competitive advantage by ensuring Macintosh software would run only on its own computers.

Its switch to an "open" software strategy heralds a mounting challenge to the market dominance of Microsoft and Intel, the leading suppliers of software and microprocessors for personal computers.

Apple also revealed that it had a project under way, called Amber, that will make it easier to create application programs, such as word processors and spreadsheets, that run both on Apple's Macintosh and on PCs using Windows, the Microsoft operating system.

Apple said that it would form a non-profit association to share Amber technology with other computermakers.

Last week, Sun Microsystems, the leading workstation manufacturer, also said it was developing technology that would enable Windows programs to run on Unix workstations. Both Sun and Apple are trying to loosen Microsoft's grip on the software market.

The battle over standards is expected to lead to intense price competition as manufacturers seek new ways to differentiate their products.

For computer users, the industry battle is expected to accelerate the trend toward "open systems" that enable different types and brands of computers to share software and data more easily.

Increasingly, computer buyers want to be able to run the same software on different types of computers to minimise training and management.

"The customer is in the driving seat today," said Mr John Sculley, Apple chairman and chief executive. Apple's "extraordinary move" is "precisely what customers want," said Mr Roel Pieper, president of Unix Systems Laboratories, the former AT&T unit responsible for Unix development and licensing.

Philip Morris appointment

PHILIP MORRIS, the US tobacco and food group, yesterday appointed Mr William Webb to head its international cigarette operations, writes Nikki Tait.

Mr Webb, who was previously president of the Asia/Pacific region for Philip Morris International, will report to Mr Geoffrey Bible, who was recently appointed head of the worldwide tobacco operations.

The move is the latest in a series of top-level executive changes at Philip Morris.

The company sent shockwaves round the consumer products sector when it announced large price-cuts in its leading cigarette brands, including Marlboro, last month.

AT&T claims video-phone breakthrough

By Martin Dickson in New York

AMERICAN Telephone & Telegraph yesterday introduced a telephone which allows the user to send full-colour, television-quality still pictures down an ordinary phone line, while simultaneously talking over the same line.

The company said the product, called the Picasso phone, was the first of its kind and would be marketed to businesses – such as advertising, design and engineering companies – which needed to transmit high quality images between different sites.

Several products allow the transmission of still or moving images while talking on a telephone line, but these generally require a special, upgraded phone service, such as integrated services digital network (ISDN).

The new AT&T equipment is distinctive in that it does not require the user to have an ISDN service, but merely an ordinary telephone line.

The phone will sell in the US for around $3,295 and the cost of calling on it will be the same as for a regular voice call.

The phone underlines two important trends at AT&T: its increasing emphasis on the merging of voice, video and computer technologies to produce new products; and its greater entrepreneurial focus.

Mr Robert Kavner, head of its communications products business, said the new phone had been developed in a year by a team drawn from across the AT&T group, which relied heavily on customer advice in creating the device.

Images can be put into the phone system from ordinary video cameras, digital cameras, photo compact disc players or personal computers. Users can draw over the transmitted pictures with a computer mouse to highlight a point.

AT&T also announced yesterday it and Kodak, the photographic products company, were exploring synergies between the two businesses with the aim of producing "end-to-end image communications solutions" for customers. Kodak's photo CD player is one source which can send images over the Picasso system.

Martinez moves quickly to bring a new vision to Sears, Roebuck

Laurie Morse and Nikki Tait examine the embattled US retailers' new merchandising chief's attempts to reposition in the market

SEARS, Roebuck, one of the largest and most heavily criticised companies in the US, will tomorrow confront its shareholders. The annual meeting, in Kansas, promises to be flinty, though it is unlikely to be as contentious as in previous years.

Institutional shareholders are likely to take a soft line on the shopkeeping side of the business and, instead, focus their anger on the failures and foibles of Mr Edward Brennan, Sears' chairman.

In the past 10 months, Mr Brennan has been forced to abandon his vision of Sears as an integrated financial company selling "stocks and socks".

As the financial businesses are spun off – Dean Witter and Discover Card operations were sold in a popular public offering last quarter – Sears is returning to its merchandising roots.

To the relief of shareholders, America's retailing dowager is undergoing a long-overdue facelift. In a last-ditch effort to retrieve sagging lines and return its large retailing operations to profitability, Chicago-based Sears is offering cosmetics and fragrances, silk blouses, where once it offered staples such as tools and hardware in its mall-based stores.

These signs of a fundamental overhaul are being orchestrated by Mr Arthur Martinez, Sears' new merchandising chief, who arrived from Saks Fifth Avenue seven months ago. Despite the brevity of his tenure, he has moved quickly.

He has wielded the axe. Sears' 97-year-old catalogue has been dropped, more than 50,000 employees have been made redundant, and 113 of the company's 850 stores have been closed.

The cuts, reckoned to add $800m to annual profits, have been applauded on Wall Street, where the retailer has been accused of feinting reform for 15 years. Sears' shares have risen from around $37 a year ago to around $55 – one reason shareholder discontent may be less pronounced at the annual meeting.

Mr Martinez has also unveiled plans to spend $4bn over the next five years refurbishing stores and to make them attractive to the nation's middle class, and increasingly female, shoppers. Furniture and hardware lines will be shifted, in some cases to free-standing Homelife stores which will compete with specialty chains such as Home Mart and Ikea.

All $4bn must come from

Arthur Martinez: not dependent on parent company to fund strategy

group operating profits. Mr Martinez says that, to fund the strategy, "we are not dependent on the parent company, or the fortunes of other subsidiaries, like Allstate".

Analysts say the affable executive has made all the right moves so far. Retailing consultant Leo J. Shapiro says: "He's taken the important first step, which is getting Sears to stop doing things wrong."

Somewhere down the line, Mr Martinez must bring forth some fresh ideas. One possibility stems from his belief that paper catalogues are becoming obsolete: Sears must position itself for video shopping.

But no one, least of all Mr Martinez, pretends that repositioning Sears' 740 remaining stores will be easy. He is saddled with retail properties of diverse standards situated in mid-market malls of 1960s and 1970s vintage.

His target shopper, the middle class woman, is not used to finding glamour at Sears while shifting hardware lines elsewhere might alienate faithful male shoppers.

But Sears' re-positioning efforts may be inadequate. Wal-Mart Stores, the aggressive discount retailer, has a capital expenditure budget averaging about $2bn a year and K mart is spending $3bn to renovate its discount stores.

Part of Sears' problem is that discount store competitors continue to undercut prices, while specialty retailers are building ever-larger superstores and attracting shoppers with larger product ranges.

Many traditional department stores, meanwhile, have moved upmarket, stressing service levels in an effort to better the discounters. "Our biggest vulnerability is the distance we have to come," says Mr Martinez.

The figures reveal the scale of the task. Last year, the core retailing operations made a tiny $55m profit. Total revenues from the merchandising division were $32bn. Credit operations then contributed $411m, leaving the net profits for the division (before non-recurring items) at $271m.

Same-store sales growth was inconsistent, sagging badly in the early-summer but recovering towards the year-end.

Despite Mr Martinez's aggressive cuts, Sears' selling costs still take 28 cents out of every dollar of sales compared with about 16 cents at Wal-Mart and about 20 cents at K mart.

Analysts suggest Sears is targeting an expense ratio of 22 per cent within three years, which would rival other department stores and specialty chain operators. It will need to achieve steady sales gains to hit that target. Analysts note that previous cost cuts – all $1bn-worth – were simply counteracted by lower margins.

The 57-year-old Mr Martinez knows competitors will not wait while Sears catches up. "The pace of change in this business gets faster and faster each year," he says, estimating he has about a year to show results before Wall Street critics rise again.

Taking out the high-cost catalogue business should significantly cut selling costs, alongside attempts to lighten Sears' cumbersome buying organisation.

This cut to the heart of Sears' culture. Last century, the retail operation was founded on the catalogue business and executives were reluctant to abandon it – even though it had been bleeding about $150m a year for the past eight years. Mr Martinez's advantage is that he is an outsider. This is a sharp contrast to Mr Brennan, who surrendered the merchandising division's reins after fumbling two reform attempts. Mr Martinez says he has Mr Brennan's full support for his reforms, but he is emphatic that the plan to reposition Sears in the market is completely his own.

He has also been replacing old Sears hands with new blood, particularly in his marketing department, and is conducting a competition to determine which agency should win Sears's lucrative advertising business.

But, somewhere down the line, Mr Martinez must bring forth some fresh ideas. One possibility stems from his belief that paper catalogues are becoming obsolete; so Sears must position itself for video shopping.

"Interactive home shopping may be finally, finally coming into its own," Mr Martinez says. "I've got board support to commit some research and development dollars in this area."

Sears is part-owner of the Prodigy home computer network, and its Craftsman tools are pitched on the Philadelphia-based QVC television shopping channel.

Radical ideas, such as video shopping, are the kind of risky long shots analysts say are necessary if Sears is to leap-frog its rivals. However, with department stores such as Macy's already on that trail, Mr Martinez may again find himself trying to catch up.

Mortgage group sold for $328m

By Laurie Morse in Chicago

SEARS, Roebuck, has sold its mortgage banking group to a Pittsburg-based bank holding company for $328m in cash.

The sale is the latest in a series of planned spin-offs designed to trim Sears' financial businesses.

The Sears Mortgage Banking Group, part of Coldwell Banker Residential Services, consists of Sears Mortgage Corp, Sears Mortgage Securities Corp and Sears Savings Bank. PNC Bank, which is buying the group, will add the units to its own retail banking operations.

PNC Bank is the 11th-largest US bank, with $51bn in assets and 550 community banking facilities in north-eastern US.

Mr Edward Brennan, Sears chairman, said: "The successful completion of this transaction is another important step in Sears' previously-announced repositioning which will continue to enhance shareholder value." Mr Brennan said efforts to sell the Coldwell Banker residential brokerage business were proceeding "on schedule".

Industry analysts said an employee-led buy-out of the Sears property unit had been discussed, but apparently has not gained sufficient support. In the first quarter, the Coldwell Banker unit recorded a net loss of $7.7m, down from a profit of $3.8m the year before.

Sears Mortgage last year was the seventh-largest mortgage writer in the US, generating $11.8bn in loans. It services a loan portfolio of $27.2bn. Sears Savings Bank has assets of around $6.7bn, mostly in residential mortgage loans. Sears Mortgage Securities is one of the leading conduits for securitising private home loans in the US and has a portfolio of $8.7bn.

The sale to PNC is the second major asset sale for Sears this year.

In February, Sears sold 20 per cent of its Dean Witter Reynolds and Discover Card units in an initial public offering. The offering, which was oversubscribed, brought in more than $800m. Sears plans to complete the Dean Witter spin-off later this year.

Sears has also said it would sell portions of its profitable Allstate Insurance business.

Opinions differ on effects of possible UK rate cut

By Jane Fuller in London and Patrick Harveson in New York

INVESTORS in the UK government bond market again steered clear of 10 to 15-year stock – regarded as the most likely target for the next gilt auction, which the Bank of England is expected to announce details of on Friday.

Although the Conservatives' drubbing at last week's parliamentary by-election and local government elections had sparked talk of interest rate cuts, opinions were divided on whether this would happen and on what effect it would have on the long end of the market.

GOVERNMENT BONDS

The futures contract reflected this split, falling by more than a quarter but then retracing most of its steps.

If a cut came, it was expected to be in response to weak economic news rather than as an immediate political measure.

■ PUBLICATION of the French mini-budget, which contained no surprises, did little to move government bonds.

The yield spread between French and German 10-year stock stayed at about 41 basis points, while the futures contract fell through the 117 support level.

This may indicate some nervousness ahead of the Danish referendum. One economist said it served as a reminder that French bonds had not yet made it to safe haven status.

The short end performed better on persistent hopes of interest rate cuts.

German government bonds held up better than most other continental European stocks yesterday in quiet trading.

Hopes of a significant cut in the repo rate by the Bundesbank today have been well damped down. Forecasts ranged from 2 to 7 basis points, taking the rate a sliver below 7.7 per cent.

Once again, Dutch government bonds outperformed bunds on the back of a strong currency and hopes of interest rate cuts.

The biggest gains came in Denmark, where an opinion poll showed a strengthening lead for the Maastricht Yes vote. This undid the damage inflicted on the government bond market on Monday by a weekend poll showing the opposite.

■ THE BEARS prevailed again in the Japanese government bond market, pushing the yield on the benchmark No 145 stock due 2002 above 4.5 per cent for the first time since January.

While there were underlying factors – the lapse in the yen's strength against the dollar, the buoyant stock market – the main explanations for yesterday's fall were weak demand and bearish sentiment.

One way of looking at it, according to one economist, was that the 145 had been too expensive throughout the first quarter of this year and had now returned to last year's levels.

The 145 underperformed the June futures contract, which closed in Tokyo at 107.85 after trading between 107.49 and 107.89. In London, however, there was an early sell-off, taking the contract down to 107.38 before it recovered some of the lost ground.

■ US TREASURY prices fell slightly across the maturity range yesterday morning as the bond market nervously awaited the afternoon auction of $16bn in three-year notes.

By midday, the benchmark 30-year government bond was down $\frac{1}{32}$ at 103¾, yielding 6.825 per cent. At the short end of the market, the two-year note was down $\frac{1}{16}$ at 100¾, to yield 3.791 per cent.

With so much new supply coming to the market this week - on top of yesterday's three-year sale, an additional $34bn in 10-year notes, 30-year bonds and cash management bills will be offered later in the week - investors and dealers were reluctant to trade actively until they got a clear idea of the scale of demand.

Market players were particularly nervous about the three-year sale, one of the largest of its type.

FT FIXED INTEREST INDICES

	May 11	May 10	May 7	May 6	May 5	Year ago	High *	Low *
Govt Secs (UK)	94.84	94.86	94.79	94.76	95.08	89.61	98.04	93.28
Fixed Interest	111.02	110.95	110.91	111.02	111.67	103.73	113.83	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (6/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	May 10	May 7	May 6	May 5	May 4
Gilt Edged Bargains	97.3	111.6	79.1	113.1	110.9
5-Day average	102.4	103.7	103.7	114.4	113.6

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	113.9439	-0.003	7.52	7.71	7.80
BELGIUM		9.000	03/03	110.3500	-	7.48	7.49	7.38
CANADA *		7.250	06/03	98.0500	-0.150	7.53	7.48	7.54
DENMARK		8.000	05/03	102.0750	+0.325	7.69	7.61	7.90
FRANCE	BTAN	8.000	05/98	105.1712	-0.088	6.74	6.70	[illegible]
	OAT	8.500	04/03	108.8300	-0.140	7.22	7.18	7.13
GERMANY		6.75	04/03	98.8250	+0.160	6.77	6.77	6.59
ITALY		11.500	03/03	95.7200	-0.245	12.63†	12.83	13.31
JAPAN	No 119	4.800	06/99	102.0989	-0.198	4.36	[illegible]	4.30
	No 145	5.500	03/02	108.3009	-0.305	4.51	[illegible]	4.33
NETHERLANDS		7.000	02/03	102.3700	+0.190	6.65	6.71	6.58
SPAIN		10.300	06/02	92.7442	-0.049	11.62	11.58	11.69
UK GILTS		7.250	03/98	100-18	-4/32	7.11	7.09	6.69
		8.000	06/03	99-14	[illegible]	8.08	8.06	7.88
		9.000	10/08	104-16	-6/32	8.47	8.41	8.11
US TREASURY *		6.250	02/03	102-20	+6/32	5.89	5.94	6.12
		7.125	02/23	103-27	+12/32	6.82	6.86	6.89
ECU (French Govt)		8.000	04/03	101.9700	0.070	7.71	7.59	7.50

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

DTB challenges Liffe with Fibor contract

By Tracy Corrigan

THE Deutsche Terminbörse (DTB), the Frankfurt-based futures exchange, is preparing to mount a further challenge to the London International Financial Futures and Options Exchange, with the launch of a short-term D-Mark interest rate contract. The exchanges already compete for market share in five-year (BOBL) and 10-year (bund) futures, while Liffe also trades a highly-successful Euro D-Mark contract, based on D-Mark Libor.

The DTB yesterday discussed with senior German traders how best to structure such a contract, which is likely to be based on the Frankfurt interbank offered rate. Fibor is the domestic benchmark rate, which takes account of Bundesbank minimum reserve requirements, and is rarely looked at by international investors. A DTB official said it had not yet been decided whether to go ahead with the contract, and admitted efforts to promote Fibor were needed.

Although there is currently a sharp focus on German interest rate movements, it is difficult to launch a futures contract without a strong cash market. The German money market received a boost in February, when the Bundesbank started offering new money market instruments called Bulis, but is still in the early stages of development.

German institutions that currently use the Euro D-Mark contract would be likely to switch to the DTB since it is owned by German banks, and German institutions have tended to favour their domestic exchange when possible.

A Fibor contract could be used for hedging Buli positions, and for spread-trading against the Euromark contract. If plans to link the DTB and the Matif, the Paris futures exchange, go ahead, this could encourage spread trading between Fibor and Pibor (the short-term French interest rate) futures.

However, it is usually an uphill battle to win market share from an existing contract.

Return of corporate borrowers generally well received

By Sara Webb

A SPATE of corporate borrowers hit the Eurobond market yesterday, with Bellsouth Telecommunications' $500m, five-year issue making the biggest splash. Corporate borrowers have shied away from the Eurobond market in recent months, leaving investors starved of top quality corporate paper, so the deals launched yesterday were generally well-received.

INTERNATIONAL BONDS

Bellsouth Telecommunications is a triple A rated name which last tapped the Eurobond market in 1988 with a $120m deal. The five-year bonds have a 5.25 per cent coupon, an issue price of 101.25 and were re-offered at 99.58.

The yield spread over the relevant US Treasury bond was 25 basis points at launch, and tightened slightly to 24 basis points by late afternoon, according to Morgan Stanley, the lead manager.

The deal went well, helped by the fact that Swiss retail investors and European institutional investors have seen a dearth of high quality US corporate paper, while Bellsouth itself is not a frequent name in the market.

The proceeds will be used to repay some short and long-term debt, refinancing the borrowings at more attractive rates. Morgan Stanley said the borrower had achieved much more attractive terms in the Eurobond market than it would have done in the domestic US bond market, claiming Bellsouth saved about 15 basis points on the yield spread.

Bell Canada, the biggest Canadian phone company, also tapped the Eurobond market yesterday, but chose the Canadian dollar sector with a C$200m, 10-year issue. The borrower's credit rating is AA3/AA- and the deal was priced to yield 76 basis points over the relevant government bond. Wood Gundy, the lead manager, said the deal saw interest from continental European investors attracted by the relatively high coupon of 8.5 per cent.

In the Eurosterling sector, McDonald's came with a £100m, 10-year bond issue which was initially criticised for being rather aggressively priced.

The fast-food chain is not a frequent borrower in the Eurosterling sector. BZW, the lead manager, said demand was mainly from institutional investors. The bonds were launched with a yield spread of 40 basis points over the 10-year gilt, and by late afternoon had held their spread, trading at a price of 98.86-98.90.

BZW said it looked at a couple of recent Eurosterling issues when pricing the deal, citing a recent issue from Abbey National which is also a AA/AA2 credit and whose bonds were trading at a yield spread of 39-40 basis points over gilts in the secondary market.

Other deals of interest yesterday included a $150m, three-year issue from the Republic of Venezuela. The bonds were launched with a yield spread of 473 basis points over US Treasuries but by late afternoon the spread had tightened to 444 basis points, according to the joint lead managers.

CSFB, the book-runner, said the deal attracted strong investor interest from a mix of retail and institutional investors interested in the emerging markets.

Venezuela has tapped the Eurobond market before and in the secondary market its 9¾ per cent bond due 1996 is trading at a yield spread of about 400 basis points over Treasuries.

A more recent bond issue – $130m of 9¼ per cent bonds due 1996 – was targeted at the Colombian market and these bonds are trading at a yield spread of about 450 basis points.

Kingdom of Spain added a further FFr1bn to its recent FFr6bn issue, lead manager CCF said yesterday.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Bellsouth Telecommunications	500	5.25	99.58R	Jun.1998	0.25R	+25%(5⅛%-98)	Morgan Stanley Intl.
Republic of Venezuela#	150	9	100R	May.1996	1.00R	-	Bankers Tst. Intl./ CSFB
D-MARKS							
Nichii Co.ф(b)	400	2.75	100	May.1997	2.25	-	Deutsche Bk./ Nomura Bk.
FRENCH FRANCS							
Pechiney Inter.(a)	1bn	7.75	99.58R	Jun.2000	-	+65%(8½-00)	Credit Lyonnais
STERLING							
McDonald's Corporation	100	8.90	98.967R	Jun.2003	0.375R	+40%(8%-03)	Barclay's de Zoete Wedd
SWISS FRANCS							
Nichii Co.ф★	300	1.125	100	May.1997	-	-	UBS
CANADIAN DOLLARS							
Bell Canada	200	8.5	100.25R	Jun.2003	0.375R	+76%(7¼%-03)	Wood Gundy
ITALIAN LIRA							
Exportfinans	150bn	10.625	101.875	Jun.1998	1.875	-	San Paolo, Turin

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Private placement. фWith equity warrants. #Semi- annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Fixed price reoffer is 99.58 until issue is free to trade. b) Exercise period 14/6/93-20/5/97. Denom. : Dm5000 + 5 warrants.

India Fund to convert to open-ended status

By Jane Fuller

THE India Fund, one of the largest country funds, with net assets of more than £240m, is to be converted into an open-ended fund to reduce the substantial discount to net asset value at which the shares have been trading.

The fund, created in 1986, traded at a premium to NAV until 1990 but moved to a discount in 1991. A week ago, before the plan was announced, the shares were trading at a 16 per cent discount, or 9 per cent taking withholding tax into account.

Political troubles, the opening of other investment avenues in Indian equities and the perception that the Bombay market was overvalued all contributed to the discount, said Mr Charles Lillis, of fund managers Merrill Lynch International Capital Markets (Guernsey).

Subject to approval at an extraordinary general meeting on May 28, shareholders can redeem shares at net asset value less India's 10 per cent capital gains tax and the fund will be free to issue shares.

Since the plan was announced, the share price has risen from 214p on May 5 to 228p, giving a market value of £215m. The price compares with a net asset value of 235p per share after allowing for Indian withholding tax.

The NAV of the fund in local currency terms had risen from Rs48.7 per share at launch to Rs126.48 by April 29 this year. In sterling terms, the rise was from 100p per share to 255p.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on May 11

U.S. DOLLAR STRAIGHTS / OTHER STRAIGHTS / DEUTSCHE MARK STRAIGHTS / FLOATING RATE NOTES / SWISS FRANC STRAIGHTS / CONVERTIBLE BONDS / YEN STRAIGHTS — Issued, Bid, Offer, Chg. day, Yield: [illegible]

* No information available - previous day's price. † Only one market maker supplied a price

STRAIGHT BONDS: [illegible] FLOATING RATE NOTES: [illegible] CONVERTIBLE BONDS: [illegible]

© The Financial Times Ltd, 1993. Reproduction in whole or in part in any form not permitted without written consent. Data supplied by International Securities Market Association.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	4	58	15
Other Fixed Interest	0	2	13
Commercial, Industrial	367	231	801
Financial & Property	184	73	542
Oil & Gas	26	13	43
Plantations	1	0	7
Mines	34	30	75
Others	56	[illegible]	42
Totals	674	432	1,538

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

§ Figures based on prospectus estimates. [illegible] Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † [illegible] ¶ Placing price. ‡ Unlisted securities market. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings Apr. 26
- Last Dealings May 14
- Last Declarations Jul. 29
- For settlement Aug. 9

3-month call rate indications are shown in Saturday editions.

Calls in Alvis, Aviva Petrlm., Berisford Intl., Clinton Cards, Comac, Emess, Hanson warrants, Kunick, Northern Foods, Ratners, Regalian Props., Western Mining and Yorkshire-Tyne Tees TV. Put in Ratners. Doubles in First Natl. Fin., Hartstone, Lonrho, Pittencrieff, Ratners and Tarmac.

FT-SE ACTUARIES INDICES

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices and the FT-SE Actuaries Industry Baskets are calculated by The International Stock Exchange of the United Kingdom and Republic of Ireland Limited. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1993. All rights reserved.

The FT-Actuaries All-Share Index is calculated by The Financial Times Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries. © The Financial Times Limited 1993. All rights reserved.

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices, the FT-SE Actuaries Industry Baskets and the FT-Actuaries All-Share Index are members of the FT-SE Actuaries Share Indices series which are calculated in accordance with a standard set of ground rules established by The Financial Times Limited and London Stock Exchange in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

"FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited.

LIFFE EQUITY OPTIONS

Option / CALLS / PUTS: [illegible]

FT-SE INDEX (*2834) / EURO FT-SE INDEX (*2834): [illegible]

May 11 Total Contracts 26,243
Calls 13,530 Puts 12,713
FT-SE Index Calls 2,364 Puts 6,161
Euro FT-SE Calls 2,054 Puts 2,784
*Underlying security price. †Long dated expiry months.
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Tue May 11	Day's change %	Mon May 10	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (23)	127.46		127.45	1.91	4.09
2	5-15 years (24)	145.68	-0.13	145.87	1.85	5.22
3	Over 15 years (9)	156.22	-0.12	156.40	2.35	3.48
4	Irredeemables (6)	174.59	-0.10	174.76	0.41	6.12
5	All stocks (62)	142.59	-0.08	142.82	[illegible]	4.58
	Index-Linked					
6	Up to 5 years (3)	192.85	-0.06	[illegible]	[illegible]	1.92
7	Over 5 years (11)	171.16	-0.20	171.50	[illegible]	1.72
8	All stocks (14)	171.61	-0.18	171.92	0.83	1.75
9	Debs & Loans ([illegible])	135.61	+0.06	135.53	2.19	[illegible]

AVERAGE GROSS REDEMPTION YIELDS

			Tue May 11	Mon May 10	Year ago (approx.)
	British Government				
1	Low	5 years	7.10	7.08	8.25
2	Coupons	15 years	8.06	[illegible]	9.04
3	(0%-7¾%)	20 years	8.28	8.28	9.05
4	Medium	5 years	7.38	7.37	9.22
5	Coupons	15 years	8.49	8.46	9.08
6	(8%-10¾%)	20 years	8.58	8.55	9.08
7	High	5 years	7.83	7.81	9.45
8	Coupons	15 years	8.74	8.72	9.21
9	(11%-)	20 years	8.78	8.77	9.16
10	Irredeemables(Flat Yield)		8.63	8.62	9.26
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.77	2.74	3.81
12	Inflation rate 5%	Over 5 yrs.	3.61	3.59	4.40
13	Inflation rate 10%	Up to 5 yrs.	1.97	1.94	3.15
14	Inflation rate 10%	Over 5 yrs.	3.43	3.42	[illegible]
15	Debs &	5 years	9.86	9.82	10.58
16	Loans	15 years	9.55	9.56	10.42
17		25 years	9.69	9.70	10.32

Estimate of net loss from the Bishopsgate bomb increased to £10m

First quarter recovery at GA

By Richard Lapper

GENERAL ACCIDENT yesterday provided further evidence of the turnround in the general insurance market with better-than-expected first quarter figures.

The Perth-based composite insurer reported pre-tax profits of £41.9m in the first three months of 1993, compared with a £29m loss in the same period of 1992. The shares rose 18p to 591p.

A fall in worldwide underwriting losses of £54.5m to £80.5m, was underpinned by a strong performance in the UK where GA was boosted by the impact of higher premiums, milder weather and cuts in operating costs.

UK underwriting losses fell to £4m (£65m), in spite of a pay-out of £3m after flooding in Scotland in January.

GA has revised its estimate of net losses from the Bishopsgate bomb in April to £10m compared to earlier estimates of £7m. The loss will affect second quarter figures.

Overall premium income rose to £1.02bn (£914.7m) for general business and to £207m (£165.1m) for life business. In the UK the book of household business was expanded with premium income rising to £71m (£47.3m), following the acquisition of a block of business from the Cheltenham & Gloucester building society last October.

Investment income – after loan interest – increased to £115.6m (£102.7m). Losses from estate agency operations fell to £3.7m (£4.5m). Life profits amounted to £10.5m (£7.8m).

The company did not intend to follow the example of Commercial Union and Royal Insurance by raising fresh capital through a rights issue in order to take advantage of rising rates, said Mr Nelson Robertson, chief general manager.

Mr Robertson said his company's capital base was adequate, its solvency margin – the yardstick which measures net assets as a percentage of non-life premium income – amounting to 46.1 per cent, compared to 41.5 per cent at the end of 1992.

GA raised £250m in cumulative preference shares last year.

See Lex

Pilkington suspends executives at US arm

By Peter John and Maggie Urry

THE PRESIDENT and two top executives of Libbey-Owens-Ford, the US subsidiary of Pilkington, have been suspended during an internal investigation of "discrepancies", the glass group said yesterday.

The three are Mr Ron Skeddle, president and chief executive officer, Mr Ed Bryant, executive vice-president operations, and Mr Darryl Costin, executive vice president technology.

They were suspended on Monday after it was discovered that the three "appeared to fail to follow corporate procedures", Pilkington said.

Mr Trevor Jones, chairman of LOF's board, is taking charge of the business until the investigation is complete.

Pilkington denied market rumours that the FBI had been called in, saying that no "outside agency" was involved in the investigation.

The shares fell 5p to 128p with the market closing before Pilkington responded to the speculation.

Pilkington stressed that the problem did not involve "a major financial loss" and said LOF's customers and operations were not affected.

Pilkington bought LOF in April 1986 and in 1989 sold a 20 per cent stake to Nippon Sheet Glass.

In the 1991-92 year, LOF contributed £511.5m to group turnover of £2.6bn, and operating profits of £10.8m out of £182.5m.

Tiphook and Itel reject agreed bid for TIP Europe

By Angus Foster

TWO shareholders controlling 9 per cent of TIP Europe, the trailer rental company, have said they will not accept the recommended offer for the company from GE Capital, the financial services arm of General Electric of the US.

The two are Tiphook, which holds 5.5 per cent and is TIP's main competitor, and Itel Corporation, a US distribution concern.

The companies said GE's offer was "wholly inadequate" and did not reflect TIP's long term earnings potential.

The first closing date for the 42p a share cash offer is today, although no details are expected until tomorrow.

Tiphook's move seemed designed to frustrate GE's plans to build a trailer rental business in Europe, or wrest a higher price for control of TIP.

The announcement was described as a "commercial spoiling tactic" by Mr Richard Gillingwater, managing director corporate finance at BZW, adviser to TIP.

Itel said it was reacting to an "undercurrent of sentiment" from other shareholders that the sale was poorly timed at the offer price. Itel felt TIP's earnings would recover in step with the European economies.

The rejection of the offer is likely to give pause to institutions sizing up GE's bid. Institutions are having to weigh the options of taking cash now or waiting for a recovery in TIP's main markets. The offer price was at a steep premium to TIP's share price before the bid of 25¼p, but well below the share's trading level in 1990, when they collapsed from 175p as recession hit.

TIP also has a large number of individual shareholders; their view of GE's offer is difficult to assess.

Tiphook is unlikely to make a counter offer for TIP because of monopoly considerations. According to analysts, other bidders are unlikely because of the high gearing involved in truck rental and because of the depressed market.

TIP shares closed unchanged yesterday at 41½p.

Holmes & Marchant back in the black

By Peter Pearse

Holmes & Marchant, the marketing services group, returned to the black at the pre-tax level in the six months to March 31.

Profits emerged at £299,000 (losses £715,000) on turnover some £200,000 lower at £16.7m. Operating profits from continuing businesses rose 27 per cent to £1.22m (£963,000) after administrative expenses declined to £5.62m (£6.16m) following rationalisation.

Lower interest rates meant a reduced charge of £451,000 (£511,000) and exceptional items, again relating to reorganisation and empty property costs, fell to £471,000 (£1.05m).

Mr John Holmes, chairman, said that borrowings had shrunk by £500,000 to £8.5m since the year-end and that there was only "minimal" deferred consideration – a blight on the whole sector since the acquisitive 1980s – still outstanding.

He said that although public relations and medical marketing were still subdued, there were "positive indications of increased activity" in design and sales promotion.

Earnings were 1p (losses 2p).

New I&S trust seeks £172m

By Philip Coggan, Personal Finance Editor

A NEW investment trust, Ivory & Sime ISIS Trust, is hoping to raise up to £172m via the issue of ordinary shares and convertible annuity shares.

The trust will invest in a portfolio of UK equities. However, the income from these equities is being sold to institutional investors in the form of convertible annuity shares.

These will have a negligible repayment value but a high dividend yield.

The convertible shares will be issued in a ratio of 1 to every 10 ordinary shares. Institutions have agreed to underwrite the sale of 10m convertible annuity shares at 147p per share, with a maximum of 15m available.

The ordinary shares will receive no income but will be entitled to all the assets of the trust. Proceeds from the sale of the convertible annuity shares will result in an uplift in the net asset value of the ordinary shares.

Ivory & Sime estimates the initial net asset value per share at 110p, compared with an offer price of 100p.

Private investors will be offered a low-cost way of selling their ordinary shares in order to use their annual capital gains tax allowance. The aim will be to get a 7 per cent tax-free income.

To reduce the risk of the ordinary shares falling to a discount, ISIS will also have a low-cost savings scheme, with holders being offered free warrants every year.The hope is that the demand from the savings scheme will mop up the shares sold by investors who take income.

The offer is open until June 4.

Huntingdon tumbles to £0.98m

By Catherine Milton

PRE-TAX profits at Huntingdon International Holdings, the life sciences and engineering services group, fell to £984,000 in the six months to end-March, compared with £6.95m last time.

Turnover, helped by a maiden half-year contribution from Travers Morgan, acquired in December 1991, growth in UK operations and currency fluctuations, rose to £84.5m (£69.9m). A maintained interim dividend of 0.875p is uncovered by earnings of 0.009p (0.056p).

The group warned last month that profits would be depressed in the second quarter, citing continuing weakness in the US economy, abnormal weather and the need to rationalise its US-based engineering and environment services group.

The rationalisation was behind a £3m exceptional provision which contributed to a £2.74m pre-tax loss in the second quarter on turnover of £40.9m. For the comparable period last year the group returned profits of £3.73m on turnover of £38.9m.

Operating performance at the US engineering and environmental services group improved in March, directors said.

In the UK, turnover at the Life Sciences group rose 7 per cent with new orders so far ahead 16 per cent on last year.

Unigate postpones public offering of US businesses

By Angus Foster

UNIGATE, the food and distribution group, has postponed the planned public offering of its US restaurant businesses after the two chains involved reported poor sales in March and April.

The company announced last month it was preparing an IPO to dispose of up to 100 per cent of the businesses, which trade as Black-eyed Pea and Taco Bueno. The sale was expected to raise $220m to $250m (£145m to £164m), or $15-$17 a share.

However, trading was affected by bad weather in March and did not fully recover last month. The March figures were also weak in comparison to a strong month a year earlier, due to different promotional campaigns.

Goldman Sachs, the company's US adviser, had hoped to price the shares at the top end of the range. However, when the latest trading results became available, the likely offer price is understood to have fallen below the target range and Unigate decided to pull the issue.

The issue would be delayed "at least several months". Unigate would still favour selling the businesses via an IPO although a private sale would not be ruled out.

Unigate's shares fell 12p to 358p. Analysts said the delay was disappointing but not seriously damaging. Unigate had hoped to use the proceeds of the sale to reduce borrowings. Following a number of acquisitions earlier this year, the company is expected to have pro forma gearing of about 60 per cent at its March year end, but interest cover remains strong.

Black-eyed Pea, which offers home-style cooking, has 115 outlets in 16 states while Taco Bueno has 111 Mexican fast food restaurants. In the last financial year, the businesses made operating profits of £13.3m.

Shares in Grand Metropolitan, which owns the Burger King chain, fell 2p to 430p on worries about its US restaurants.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Avon Rubber	int	5	July 16	5	-	16.5
Contra-Cyclical	fin	8	June 30	4.5	12.75	11.25
Crean (James)	fin	4.635§	-	10.4765	12.5	18.3415
Glasgow Income	int	0.6*	Aug 31	0.6	-	3.2
Huntingdon Intl	int	0.875	July 6	0.875	-	2.775
Vaux	int	3.25	July 19	3.25	-	9.35

Dividends shown pence per share net except where otherwise stated. §Irish pence. *Second interim; maintains total so far at 1.2p.

BM banking facilities extended

BM Group, the construction equipment concern, has successfully negotiated continued financing facilities with its 10 banks for an initial period to June 6.

Talks on securing longer term funding are proceeding but it is thought unlikely there will be an agreement by the end of the period, requiring an extension of the arrangements.

The company is working on a survival plan expected to cost about £42m in redundancies, closures, disposals and write-offs.

Price of 129p per share compares with 250p paid by Ricoh in 1991

Inchape deal enhances its reputation

By Andrew Bolger

INCHCAPE'S deal with Gestetner, the office equipment distributor, will enhance the international business service group's reputation for being ready to wait until the price is right.

Inchcape is paying 129p per share for its initial 15.3 per cent stake in Gestetner, compared with the 250p per share which Ricoh, the Japanese photocopier manufacturer, paid in 1991 for a 24 per cent stake.

One of Inchcape's largest recent deals came at the end of 1991, when it bought TKM, the motor dealer, for £382m, reputedly £100m less than its asking price 18 months earlier.

Mr Charles Mackay, Inchcape's chief executive, said the first contacts with Gestetner came in Hong Kong in August, 1990, but "we were always way apart on price".

Although Mr Mackay believes the present purchase price is "very acceptable", he said the structure of the deal reflects a decision to proceed cautiously.

Unlike TKM, a private company which allowed Inchcape to "crawl all over it" before the acquisition, Mr Mackay said that in case of Gestetner they had to rely solely on information supplied at arms-length by one shareholder, the vendor, Chiltern Capital.

Mr Mackay said: "We would be well advised to take one step at a time. It is the right thing to do with this company at our present level of knowledge. It shows no lack of confidence, it's just that our knowledge base is not there."

> 'We would be well advised to take one step at a time. It is the right thing to do at our present level of knowledge. It shows no lack of confidence, it's just that our knowledge base is not there'

Mr Rod O'Donoghue, finance director, and Mr Andrew Cummins, the strategic director, are joining the Gestetner board.

Although confident that Gestetner is not associated with the pressure-selling abuses which has dogged parts of the photocopier market, Mr O'Donoghue will be keen to ensure that the company takes a conservative line on issues such as non-recourse financing and writing down the value of leased assets.

Mr Basil Sellers, Gestetner's Australian chairman and chief executive, is a large shareholder in Chiltern. He said the investment in Gestetner had "just been average" since he bought into the former family-controlled group in 1986.

The cash consideration of £39.7m represents a book loss of £300,000 compared with the current book value of Chiltern's investment in Gestetner.

Mr Sellers said: "I would obviously have preferred to sell out at 250p, as we did to Ricoh, but the time had come to return to my roots. I came here for two years and stayed for seven."

The Australian management team is credited with doing a good job in moving Gestetner away from stencil duplicators towards photocopiers, but it also made an ill-judged expansion into the photographic equipment market. In January the planned sale of the group's Vivitar and Hanimex camera distribution businesses fell through, but there is no doubt that the company will focus entirely on office supplies.

Inchcape will treat its 15 per cent stake as a trade investment, and would only equity-account the stake if and when it is lifted to 25 per cent. But Mr Mackay stresses that outcome is by no means predetermined. "We will be entirely pragmatic. We could say we don't like the look of this thing."

Inchcape said that Gestetner operated mainly in office equipment, a large, globally homogenous industry in which the distributor role was well established and could potentially generate good returns as a result of revenue from service and supplies.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 12.05.93: Pool purchase price £/MWh	Final Prices for Trading on 14.04.93: Pool purchase price £/MWh	Final Prices for Trading on 14.04.93: Pool selling price £/MWh
0030	19.00	18.09	18.09
0100	18.84	18.23	18.23
0130	19.00	18.17	18.17
0200	27.60	28.13	32.31
0230	27.50	34.00	38.39
0300	20.50	34.00	38.26
0330	18.50	30.43	34.44
0400	19.00	30.43	34.52
0430	[illegible]	18.17	18.17
0500	18.64	18.41	18.41
0530	18.60	18.39	18.39
0600	18.58	18.39	18.39
0630	18.60	18.46	18.46
0700	19.00	24.22	28.24
0730	27.43	24.22	28.18
0800	25.78	26.91	30.95
0830	27.47	25.30	29.27
0900	27.52	28.04	[illegible]
0930	[illegible]	34.63	38.92
1000	[illegible]	34.64	38.90
1030	27.52	34.63	38.89
1100	27.52	29.00	[illegible]
1130	27.53	28.04	32.10
1200	27.55	26.91	30.92
1230	30.10	26.91	30.92
1300	30.07	26.91	30.90
1330	27.45	25.30	29.22
1400	26.95	25.30	29.22
1430	25.76	25.30	29.22
1500	25.76	25.30	29.23
1530	26.58	25.30	29.23
1600	26.60	25.30	29.23
1630	30.67	35.17	39.40
1700	37.89	35.17	39.38
1730	37.89	35.17	39.39
1800	37.87	35.17	39.43
1830	25.40	25.30	29.25
1900	25.40	25.30	29.26
1930	25.40	18.66	18.66
2000	25.25	18.66	18.66
2030	24.76	30.67	34.77
2100	24.76	33.00	37.14
2130	45.42	33.00	37.13
2200	[illegible]	31.00	35.12
2230	35.00	24.77	28.71
2300	20.50	24.38	28.30
2330	19.07	24.22	28.18
2400	18.68	18.29	18.29

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.66/MWh becomes 1.866p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8:30am and 5:15pm Monday to Friday.

©NGC Settlements Limited

Carclo agreed offer values Lee at £55m

By Andrew Bolger

CARCLO Engineering Group yesterday made a recommended offer for Arthur Lee & Sons, valuing the Sheffield-based manufacturer of steel and plastic products at £55m.

Leeds-based Carclo, which already had a 29.9 per cent stake in Lee, said it now spoke for 45 per cent of the ordinary shares, after receiving acceptances from directors and other shareholders.

Carclo is offering seven shares for every nine Lee. In addition, Lee shareholders will receive a special interim dividend of 4p. There is a cash alternative, fully underwritten by Fleming, of 151.7p for each Lee share.

Separate cash offers will be made of 208p for Lee's A preference and 146p for the B preference.

Carclo's shares, which had been suspended at 223p on Monday, yesterday closed 13p down at 210p, valuing its bid at 163.3p per share. Shares in Arthur Lee, which had been suspended at 142p, closed 16p higher at 158p.

Mr John Ewart, Carclo chairman, said: "I am delighted that a merger between our two new companies has been agreed on terms that we expect in due course will enhance the earnings per share for Carclo shareholders.

"The combined management expertise together with the broader range of businesses will provide shareholders in the enlarged group with an enhanced investment in a financially strong engineering business."

Mr Peter Lee, chairman of Arthur Lee, said: "The terms of the merger give our shareholders good value for their shares, including an opportunity to participate in the growth of the enlarged group which I believe has excellent prospects."

Mr Ewart said considerable benefits would arise from the combination of the two companies' wire and wire rope businesses, and increased buying power.

Carclo's head office in Leeds, which is coming to the end of its lease, will be combined with Arthur Lee's offices at Sheffield.

Five Lee directors, two of whom are non-executive, will join the Carclo board with Mr Lee becoming deputy chairman. Mr Graham Logan Brown, currently Carclo's deputy chief executive, will become managing director.

Carclo estimated that for the year to March 31, its pre-tax profits were not less than £8m and earnings per share were at least 13.6p. Lee said that its pre-tax profits for the six months to March 31 were not less than £2.1m and earnings per share at least 4p.

Carclo is being advised by Flemings, while NM Rothschild is acting for Lee.

Gold Crown in £16m buy-out

Gold Crown Foods, a tea and coffee packer, has been acquired by a management buy-out team backed by 3i and Henderson Venture Managers.

It is the second MBO at the company in six years. Total funding raised for the buy-out was over £16m.

Originally part of Argyll Group, Gold Crown was bought by its management in 1987. This second MBO enables three of the four original buy-out team and its backers to sell out.

J Crean in red after IAS write-off

By Tim Coone in Dublin

JAMES CREAN, the Dublin-based industrial holding company, suffered a pre-tax loss of I£15.4m (£15.1m) for the 1992 year reflecting a I£30.7m total write-off of its investment in IAS, an aircraft leasing subsidiary in which it first invested in 1989.

Pre-tax profits for 1991 amounted to I£11.4m.

An additional provision of I£1.8m was made against a loan for an option to acquire a holding in a UK business, making a total exceptional charge of I£32.5m.

It is the second year running that the group made a write-off provision, a I£7.1m charge having been made in 1991.

Operating profits fell 2 per cent to I£24.1m on turnover up 8 per cent to I£226.2m. Net borrowings rose 21.4 per cent to I£69.7m, representing 76.5 per cent of net assets including goodwill.

The company said that the IAS write-off "which includes all Crean's loans, investments and guarantees" to the company, has been made because "the affairs of IAS have overshadowed Crean's other business interests in a disproportionate manner for the past two years".

Crean increased its stake in IAS from 31 to 38 per cent in 1991. The company said that a recovery in aviation "offers a good prospect of realising value from its loan stock in IAS in due course".

Crean's main profit centres are in food and beverages, in operations in the US and Ireland, and in print and packaging through Inishtech, a 72.7 per cent-owned subsidiary.

Losses per share amounted to 70.3p. A final dividend of 4.635p is recommended for a total of 13.5p (18.34p).

An improving climate for flotations

A line up for market and a revival of investor interest. Maggie Urry reports

THE CLIMATE for flotations has rapidly moved from freezing to a near summer-like warmth as investor interest has revived.

Recent issues have been comfortably over-subscribed and first day dealings have shown premiums.

There is a string of companies lining up for market taking advantage of historically high share prices.

Institutional investors are currently keen on smaller companies – most of the recent flotations have given issuers market values of under £100m.

Private investors, painfully aware of falling returns from cash, are turning to equity investment. New issues provide a commission-free way of buying shares, with the hope of a "stagging" profit.

However, there are concerns that the public is being disadvantaged in some issues. Smaller flotations are conducted through institutional placings, with the private investor excluded.

Such has been the recovery in sentiment that the Stock Exchange has reversed last summer's relaxation of its listing rules on the proportion of shares to be offered publicly.

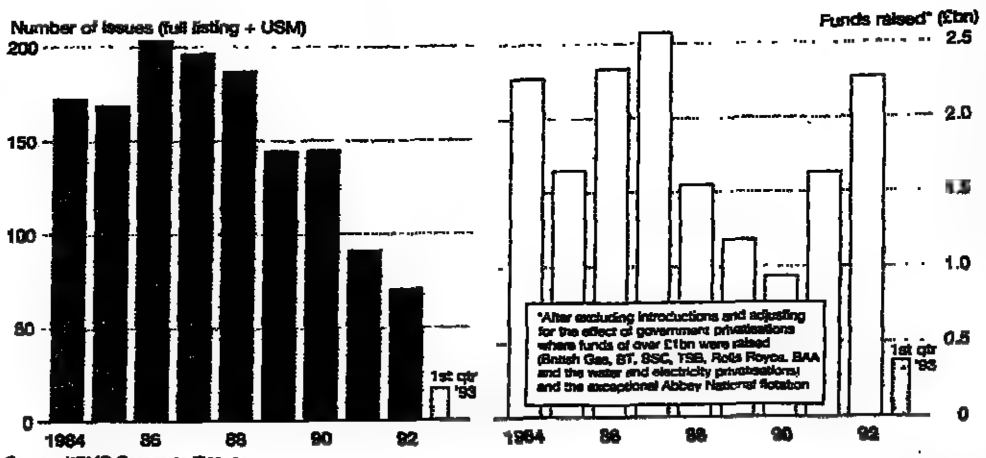
That move was made when some issues attracted less public demand than expected. Then the Exchange told corporate financiers they could negotiate to cut the proportion to be offered to the public.

According to the listing rules issues raising more than £30m must be by public offer, but up to half can be placed with institutions. A greater proportion can be placed in particularly large issues or, the Yellow Book says, "in other exceptional circumstances". Poor retail demand appears to come in that category.

In subsequent offers a 75:25 per cent split between firm placing and public offer was normal. But as retail interest in flotations picked up, the Stock Exchange began to edge back towards the written rule.

A turning point was the David Lloyd Leisure flotation in March. That issue raised £59m with 75 per cent of the shares placed firm.

New issues



Source: KPMG Corporate Finance

The former tennis star's business attracted applications for over 7 times the number of shares on offer.

Mr Philip Stephens, of UBS, the stockbroker, says "the success of some issues has pushed us back to the rubric". He acts for both Stagecoach, the coach operator which floated in April with a 65:35 split, and for OGC International, the contractor specialising in North Sea oil and gas construction, due to float later this month with a 50:50 division.

"Retail interest is certainly there and has been developing through the year" says Mr Stephens.

The Exchange is prepared to give some leeway on the £30m issue size, with a public offer not necessarily required for issues up to £35m.

In March Hambros Insurance Services raised £35m through a placing and financial intermediaries offer.

This willingness to raise the minimum amount where a public offer becomes obligatory suggests the Exchange is finding it harder to justify demanding a public offer on a £30m issue.

This minimum has, in any case, been gradually rising for years and the 50 per cent institutional placing is relatively new. One merchant banker remembers doing an offer for sale for £5m in 1986. Another says: "People forget it is not very long ago that issues over £30m were all straight offers for sale to the public".

The Exchange is believed to be looking at alternatives to public offers so long as they can be shown to accommodate public demand. It appears sympathetic to the financial intermediaries route.

It may gradually edge the minimum upwards, so long as there are no vociferous complaints. However, it is understood to believe that larger offers, and not just privatisations, do need public offers.

The rise of the financial intermediaries offer could thus be part of a trend away from the traditional public offer for sale, with all that they entail in terms of fixing a price and underwriting the issue over the week or so before applications come in and dealings start in the shares.

Privately, sponsors of issues and institutional investors would be happy to have a cosy arrangement cutting out the private investor. Publicly the line is often "if retail demand is there, why not tap it?"

Says one corporate financier: "We prefer a firm placing element. It gives you a stable long term institutional investor base. If you offer the lot to the public you have to price it a bit lower to make it go and institutions end up buying it back".

The expectation of low pricing and stagging profits were partly behind the huge – and many regard as undesirable – oversubscriptions of new issues in the mid-1980s. Some fear it could happen again this year.

One banker said: "Some recent oversubscriptions are unhealthy. People have no idea what they are buying, they are just stagging. One issue will go wrong, fingers will get burnt and then we'll be back to last summer again".

Some brokers and bankers feel that this could be avoided if there was a further development of a "book-building" approach to new issues, with a greatly truncated period between pricing an issue and dealings starting.

In the US most of an issue is sold in advance on the basis of a "red herring" prospectus which contains a price range. Pricing is done one evening, on the basis of demand found among investors, and the issue is usually declared "all sold" the following morning.

To some extent the UK practice is moving that way. Pathfinder prospectuses, introduced with the first British Telecommunications sale in 1984, do not include a price range. But they do provide the basis for informal book-building with institutions.

"Pricing is very much driven by institutional demand even if half is going to the public," says one broker.

The intermediaries offer could tie into a book building approach, thus accommodating private investor demand while removing the risks inherent in an offer for sale.

But such an offer excludes investors who do not have a stockbroker and prefer to apply for issues "off the page". And it means extra commissions for either the company or the investor to pay to the intermediaries.

Companies such as Sharelink, the private client dealing service, and the New Issue Register, have launched new issue schemes for private investors. Sharelink offers an application and dealing service under which it applies for the shares on behalf of investors and can then sell them on the first day of dealing, or later, or transfer them to a personal equity plan. NIR hopes to offer sponsors of issues a list of investors prepared to buy into new issues.

If such schemes are plugged into the financial intermediaries offers or even the institutional placing, then an issue could be fully placed – including a placing with retail investors – in advance of pricing. It would cut out the need for a period when investors fill in and post applications.

Should the Stock Exchange go along with such notions, the days of heady oversubscriptions, queues of applicants at banks' doors and frantic first day dealings, at least in smaller issues, could be over.

Micro Focus and IBM relationship

Micro Focus shares yesterday advanced to £24.28p before settling back to close 58p higher on the day at £24.18p, on the news that the company and IBM Programming Systems of California had expanded their long-term relationship in mainframe operating software.

Micro Focus is licensing technology from IBM and will market it with a new version of one of its existing products in the MVS (IBM's flagship operating system) area, expected to be ready in September.

Fleming Claverhouse raising up to £110m in conversion issue

By Philip Coggan, Personal Finance Editor

FLEMING Claverhouse is raising up to £100m via an offer of conversion shares.

The investment trust is only expecting to receive between £25m and £35m but has set a high maximum so that applications do not have to be scaled down.

The shares have been trading at a premium to net asset value – 5.3 per cent at the start of dealing yesterday – a sign that demand exceeds supply. Issuing new shares may eliminate the premium.

The directors believe that the potential for economic recovery in the UK provides attractive opportunities for investment and it is an appropriate time to expand the capital base.

The trust is the top performer in its sector over both three and 10 years, with growth of 579.7 per cent (mid-market to mid-market with net income reinvested) over 10 years. It is attractive to private investors, who now own nearly 65 per cent of the equity.

The shares, issued at 100p each, will be converted into ordinary shares once the proceeds of the offer are invested. This is designed to ensure that existing shares do not suffer any dilution in net asset value, and is now a common structure for investment trust share offerings.

NEWS DIGEST

McLaughlin & Harvey £6.8m in loss

LOSSES AT McLaughlin & Harvey, the County Antrim-based construction group, widened from £5.4m to £6.8m pre-tax for the year to end-December. Turnover fell £35m to £63.2m.

The deficit took account of a reduction in both interest charges to £1.09m (£1.71m) and exceptional provisions to £3.34m (£4.13m).

The group's principal objective for 1992 was to cut borrowings. At year end these amounted to £6.7m (£11.2m). The reduction was partly achieved at the expense of profitability, particularly in the housing division where prices were reduced to secure sales and reduce exposure in this sector.

Additionally, the sale of the Mallusk Park investment property made a significant contribution.

The Northern Ireland activities continued to trade profitably. However, it was again necessary to make provisions against work in progress on a number of projects in the south-east of England and seek settlements on projects which had been unresolved.

The housing division suffered from a general loss of confidence in the sector. Full provisions for restructuring and rationalisation in specialist subsidiaries and the decline in residential property values were made.

Royal Scottish Assurance improves

Profits of Royal Scottish Assurance, the joint venture company owned by The Royal Bank of Scotland and Scottish Equitable, totalled £6.3m for the six months to end-March.

Some 13,000 new policies were completed during the period, the company said, with new annual premium business rising by 19 per cent to £7m and single premium business almost doubling to £57m.

GWR reduces deficit to $2.03m

Great Western Resources, the US-based oil, gas and coal company which almost collapsed last year following litigation with its largest customer, showed significant improvement over the six months to end-March, when pre-tax losses were reduced from $13.6m to $2.03m (£1.3m).

Total revenues of the USM-quoted group improved from $34.7m to $59.1m, the bulk of which was derived from the coal operations, which contributed $45.5m against $18.5m last time.

The dispute with the South Carolina Public Service Authority has now been settled, and the net loss for the period, after a tax credit of $518,000 ($610,000), was $1.51m ($13m). Losses per share came out at 2 cents (15 cents).

The company said it had signed a new credit agreement with Citibank, which permitted a $34m capital programme for the year. Of this, $16.9m was spent in the period.

Gartmore European net assets at 115p

Gartmore European Investment Trust had a net asset value of 115p per share as at March 31, up from 99.4p at the trust's September year-end.

The net deficit for the six months to end-March was £77,000, against revenue of £16,000. Losses per share worked through at 0.38p (earnings of 0.09p). Directors expect a positive return for the full year.

Net assets ahead at Contra-Cyclical

The net asset value per capital share of Contra-Cyclical Investment Trust was 43.7p at the March 31 year-end, up from 34.7p for the previous period from February 26 1991 – the date of incorporation – to end-March 1992.

Values for income shares and zero dividend preference shares rose from 3.7p to 4.9p and from 55.8p to 62.3p respectively.

Attributable revenue was static at £1.1m, for earnings of 13.92p (13.94p) per income share. A recommended final dividend of 6p brings the total for the year to 12.75p (11.25p).

Glasgow Income net asset value up 21%

Glasgow Income Trust reported a net asset value of 43.46p as at March 31, up 21 per cent on the 36.05p at the trust's year-end in September.

The total return on net assets over the interim period was 24.7 per cent, against a return of 19.3 per cent on the FT-A All-Share Index.

Net revenue amounted to £362,000 (£393,000) for earnings of 1.23p (1.33p). A second interim dividend of 0.6p maintains the total to date at 1.2p.

Pubs acquisition gives first half lift to Vaux

By Philip Rawstorne

VAUX GROUP'S acquisition of 265 pubs last year helped boost the Sunderland-based brewer's first half trading profit by 10.7 per cent to £17.3m.

The pre-tax line was distorted by the switch to FRS 3 with headline figures showing a 32 per cent decline. However, excluding property disposals and exceptional profit from the sale last year of the Blayney's off-licence chain, pre-tax profits for the 24 weeks to March 20 advanced 4.9 per cent, from £9.21m to £9.66m, in line with market expectations.

Earnings per share, on the same basis, rose 6.7 per cent to 5.42p. The interim dividend is held at 3.25p.

Sir Paul Nicholson, chairman, said: "This has been a far from easy period in which to make progress ... but there have been some bright spots which give hopeful signs for the future."

The breweries and enlarged tenanted pub estate lifted profits 15 per cent from £7.31m to £8.43m. Total beer sales fell 1.4 per cent. Draught volumes, however, rose 8.4 per cent, with Samson, the leading brand, ahead 13.2 per cent. Cask beer volumes were nearly 25 per cent higher but sales of low-margin packaged beer fell 20 per cent. Sales of wines, spirits and soft drinks all increased.

Vaux Inns, taking in the 127 managed pubs, raised profits from £2.16m to £2.35m with income from amusement machines beginning to improve.

'If the recession is over, we can expect a recovery in hotel profits, which has been the biggest problem faced by the group in this recession.'

Profits from the St Andrew's nursing homes business were 19 per cent higher at £1.99m. Occupancy was close to 92 per cent – more than two percentage points above the same period last year. The group bought a 50-bed home in Co Durham last week and has two further homes under development in Glasgow and Sheffield.

Swallow Hotels increased profits 8.7 per cent to £5.3m. Occupancy improved 3.4 percentage points to 56.4 per cent but achieved room rates declined 6 per cent. "Forward bookings look rather healthier than at this time last year," Sir Paul said.

"If the recession is over, we can expect a recovery in hotel profits, which has been the biggest problem faced by the group in this recession."

The pubs acquisition programme raised net debt from £94.6m to £125.2m, representing 30 per cent of shareholders' funds.

● COMMENT

Signs of recovery are still weak in Vaux's northern trading area. On the beer side, market share gains are tempered by an overall decline in its beer volumes, down 2.8 per cent on a like-for-like basis, and continuing margin pressure. Pub income from food sales and amusement machines is improving, but slowly. Hotel occupancies and forward bookings are rising but customers are haggling over room rates. On full year profit forecasts of £25.5m and a p/e of 17, the shares look expensive despite a prospective yield of 4.8 per cent.

Improving trend at United Newspapers

By Raymond Snoddy

LORD STEVENS of Ludgate, chairman of United Newspapers, told yesterday's annual meeting that profits in the first half of this year should be up on last year's comparable period.

He added: "We hope that this improvement will be maintained throughout the year. Further improvement can be expected from any upturn in the economy."

Lord Stevens warned, however, that the group's markets showed little sign of any significant pickup in the economy – United publishes the Daily and Sunday Express and the Daily Star.

He said Express Newspapers had made a good start to the year and had benefited from higher advertising volumes and revenues, while costs had been held at last year's levels.

The regional newspaper division, however, had yet to benefit from any sustained increase in classified advertising.

● Mr George Bull has been appointed a non-executive director of United following the retirement of Sir Derek Palmer.

Avon Rubber calls for £22.5m

By Richard Gourlay

AVON RUBBER, the tyre and motor components company, yesterday reported a 22 per cent increase in interim profits and announced a cash call to raise £22.5m for capital investment.

The 1-for-4 rights issue at 440p will form part of a £40m investment programme over the next two years in its auto components, tyre and technical products divisions.

The share price fell 31p to 509p.

Mr Tony Mitchard, chief executive, said he hoped the rights issue would not dilute earnings in 1994, the first full year.

Gearing after the rights issue would fall to 22 per cent at the end of this year. Without the rights it would have risen to 55 per cent, compared with 50 per cent at the last year end.

In the six months to April 3, pre-tax profits rose from £4.1m to £5.01m on sales up 16 per cent at £133.4m (£115.3m).

Earnings per share rose 40 per cent to 15.5p (11.1p); the interim dividend is maintained at 5p.

Automotive components was hit by weak sales in Germany and by manufacturers selling from stock. Operating profit fell from £2.1m to £1.62m in spite of sales up 21 per cent at £48.6m (£40.1m).

The technical products division, which makes golf grips, milking machine components, photocopier rolls and aerosol gaskets, saw profits increase from £2.17m to £3m on sales up 22 per cent at £37m (£30.6m).

Tyre profits rose sharply to £2.8m (£1.64m) on sales up 9 per cent at £41m (£37.6m) as the division benefited from overhead cost savings.

● COMMENT

It will not have escaped investors' attention that they last paid 500p four years ago to fund part of the Cadillac Rubber and Plastics acquisition and are only just seeing a return. This time the call is to fund the recovery, gearing being too high and the investment needs apparently too pressing to allow investment from Avon's own resources. Almost certainly the rights will dilute earnings in the first full year unless the company can lay down the investments extremely quickly. Earnings are therefore likely to rise to only 38.1p in 1994, against a previously forecast 42p. The shares are therefore in for a dull time until the company proves it can produce the organic growth its ambitious expansion is anticipating. Not least, investors will want to see how far German auto makers will shift allegiance from traditional, and expensive, local component suppliers to the likes of Avon, the price advantage of which has so far cut little ice.

C&W considers Philippines venture

By Andrew Adonis

CABLE AND Wireless, the telecommunications group, is considering a \$3bn (£2bn) joint venture which could give it a prime role in the development of the telephone system in the Philippines.

The venture would be the latest in a succession of moves by C&W to establish itself as the leading international telecoms operator in the Asia Pacific region.

It already has stakes in two network operators in the Philippines. Other investments in the region include a majority stake in Hong Kong Telecom and a 24.5 per cent share in Optus, the main domestic competitor to Telstra (formerly AOTC) in Australia.

The other partners are Australia's Telstra International and Benpres of the Philippines.

C&W stressed that at present the partners have agreed only to carry out "feasibility studies" into the possibility of establishing a new company to expand and modernise the telephone network.

Analysts believe prospects for the new company would be bright: with fewer than 1.5 fixed lines per hundred people, the Philippines has one of the lowest levels of line penetration in the region and its government is anxious to extend and update the system.

About 40 per cent of the venture will be owned by C&W and Telstra, another 40 per cent by Benpres, and the rest by smaller investors.

Mr Andrew Harrington, regional telecoms analyst at Salomon Brothers Hong Kong, said the joint venture was "typical of the growing trend for governments in the region to seek expertise and investment from overseas telecoms companies to help with their network development. It reinforces C&W's pre-eminent role in the region."

Alco Standard bids £67m for Erskine

By Paul Taylor

ALCO STANDARD, the acquisitive US paper and office products distribution group, yesterday made a £67.4m recommended cash offer for Erskine House, the Kent-based office equipment service company.

Under the terms of the proposed deal Alco will pay 90p a share for each Erskine ordinary share and 100p a share for the preference stock.

In addition, provided the deal goes ahead, Erskine will pay shareholders a second interim dividend of 2.5p.

Erskine, with operations in the US, UK and Germany, has been hard hit by the decline in machine sales in the UK which fell 24 per cent in the six months to September 30.

First half pre-tax profits fell 29 per cent to £4.7m and the company warned in March that it would not be paying a full year dividend.

The shares, which had been trading just above a 10 year low of 30p in recent weeks, jumped 54p to 89p yesterday after Alco bought 10m shares in the market, equivalent to a 21.7 per cent stake, at the 92½p offer price – including the second interim dividend.

Mr Ray Mundt, chairman and chief executive of Alco, which is quoted on the New York Stock Exchange and reported operating income of \$225.7m (£146.5m) on turnover of \$4.93bn last year, said the proposed acquisition represented "the next logical step" in the group's global strategy.

Mr Brian McGillivray, Erskine's chairman and chief executive, said the offer was "good deal" for shareholders, employees, customers and suppliers, although he acknowleded that he would have prefered to keep the company independent.

If the deal goes ahead he is not expected to stay with the group although any parting would be amicable.

Alco's office products division already operates the largest independent copier dealer network in North America with annual revenues of \$1.5bn and has targeted Europe for further expansion.

Mr Mundt said Alco identified Erskine as a possible acquisition target "some time ago," but only began negotiations on Friday night. The negotiations were completed over the weekend.

Erskine House is the leading office equipment distributor in the UK with a 6-7 per cent market share although more than half its 1992 turnover and pre-tax profits came from its US operations.

Erskine's US operations are strongest in New York, Houston and Los Angeles and will strengthen Alco's existing US business, according to Mr John Stuart who runs Alco's office products operations.

Both companies supply and service the same office equipment from Canon, Ricoh, Sharp and Minolta.

IN BRIEF

GREENACRE GROUP has acquired the assets and business of Donnington Nursing Home in Newbury from Bright Walton Homes for £1.27m cash.

VARDON: the 2-for-5 open offer at 72p per share received applications in respect of 15.6m shares or 78 per cent of issue. Remaining 4.4m shares taken up in accordance with placing arrangements.

Comex members not tempted by doubled offer

By Laurie Morse in Chicago

THE TEAM of New York Mercantile Exchange traders negotiating the energy exchange's take-over of the New York Commodity Exchange (Comex) is prepared to double its bid to $20m and make concessions on trading rights in an effort to bring the deal to closure.

Still, Comex members say the offer is not sufficient, and many are losing interest in the deal.

Both sides are keenly aware of the time and effort lost in failed merger negotiations between the Comex and the Chicago Board of Trade. "We would like to settle this, either way, as soon as possible," said a Comex official. The exchange's board of directors has a regularly scheduled meeting tomorrow and will discuss the Nymex proposal formally for the first time.

Nymex's first offer for the Comex, the world's largest precious metals exchange, was for $10m in cash. Comex members immediately said the amount was inadequate, considering Comex holds $13m in cash. The new offer, which has yet to be approved by the Nymex board, is said to be $20m. That is still far less than the $60m Comex members claim as the "book" value of the exchange.

The Comex board accepted a take-over offer from the Chicago Board of Trade last January in an effort to find a financial backer and cut overheads after several years of sluggish precious metals futures and options volume. Nymex stepped in on April 27, a week after that deal failed.

Now, with the gold market the busiest its been since 1991, Comex members are beginning to question the need for a merger. Comex gold futures volume jumped to 826,585 contracts in April, from 492,857 last year. Gold volume, and record April turnover in high-grade copper, sent overall Comex volume to 1.67m contracts last month, compared to 1.05m the same month last year.

LME traders warned over feared nickel squeeze

By Kenneth Gooding, Mining Correspondent

THE LONDON Metal Exchange executive yesterday added its voice to warnings from traders and analysts about a potential squeeze in its nickel market at the end of this year by announcing it was "closely monitoring" the situation.

Traders said the LME's action had an immediate effect and that the backwardation (premium for immediate delivery) between November and December, which has been as wide as $100 a tonne in recent weeks, narrowed to $15.

Mr William Adams, analyst at Rudolf Wolff, part of the Noranda natural resources group, said the potential options-related squeeze was having some near-term impact by underpinning the price of nickel for delivery in three months because "people are wary about being short".

He said the build up of option positions suggested that some traders were confident of significantly firmer nickel prices towards the year-end. "But it is difficult to get too bullish with LME nickel stocks at a record 91,980 tonnes. We will need to see those stocks being drawn down before we know that the market fundamentals are really changing."

Mr Angus MacMillan, research manager at Billiton-Enthoven Metals, part of the Royal Dutch/Shell group, said that the groundwork for a potential squeeze had been in place for some time and "the LME was probably right to sound the alarm bells sooner rather than later".

The exchange's announcement might not have detered those behind the potential squeeze, "but the rest of the market started to behave in the way the LME would wish".

For most of last year the LME zinc market was gripped by a squeeze and the executive was forced to intervene. In 1991 it took similar action to restore order in the copper market.

CIS aluminium agency makes contact with EC

By Kenneth Gooding

INTERCOMALUM, THE organisation set up last month to promote and defend the aluminium industry of the Commonwealth of Independent States, has made its first contact with the European Commission.

The commission is being urged by European producers to impose draconian quotas on CIS aluminium imports and is inquiring into the complaints under rules that allow measures to "safeguard" European Community industries.

Mr Elliott Spitz, a vice chairman of Intercomalum and also a director of AIOC Corporation, the New York-based trading company, said it was believed this was the first time that there had been contact between the CIS aluminium industry and the Brussels-based commission. It was hoped that there would be regular discussions between them from now on.

A commission official confirmed that lawyers representing Intercomalum had made contact with its delegation in Moscow. "It is up to them to take the next steps," he added.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+8,125	to 1,791,325
Copper	+3,175	to 403,475
Lead	-275	to 251,025
Nickel	+474	to 91,980
Zinc	-3,425	to 644,775
Tin	+80	to 20,475

Chinese bank's gold trade monopoly under threat

By Tony Walker in Beijing

THE PEOPLE'S Bank, China's gold-purchasing agency, is facing increasing challenges to its gold trade monopoly at a time of rapidly rising demand for the precious metal among Chinese consumers.

The establishment of a flourishing gold market in northern Liaoning province near the Soviet border almost certainly poses the most severe threat in years to the People's Bank's domination of the gold trade.

"Some stores trade gold bars, not just gold jewellery. See that's serious. Of course, we're worried there will be more such markets," said a People's Bank official this week.

In an official statement the People's Bank, the country's central bank, has accused those responsible for the Liaoning market of spreading disorder in the gold jewellery market. It charged that gold merchants had "harassed" the state purchase plan.

Under present rules, the bank is empowered to acquire all gold produced in China at about Yuan50 (US$8.70) a gram, two-thirds of the world price. Miners blame the depressed purchase price for lagging production, which reached about 110 tonnes last year, compared with demand of 250 tonnes.

The China Daily said this week that the authorities were considering sweeping reforms, including price-reform, in the gold sector to boost production. The paper reported that gold production had declined in the first quarter this year, although it also observed that some miners may be withholding production from the state for sale on the booming local market.

Under China's present five-year plan (1991-1995) US$1.3bn of investment in gold mines is proposed with the aim of increasing production by 40 per cent by 1996. At present rates of production growth it seems unlikely China that will reach that target.

News of the Liaoning gold market and reports that Beijing is considering seriously the establishment of a Gold Exchange coincide with reports that China has emerged as the world's largest gold consumer.

According to Gold Fields Mineral Services in its annual report "Gold 1993" Chinese passion for gold jewellery, a desire by Chinese to hedge against a depreciating currency and heavy gold purchases by the People's Bank contributed to the gold buying spree.

The report said that the Chinese central bank might have purchased a substantial portion of the 400 tonnes of gold sold by the Netherlands central bank last year. China has not published gold reserve figures since 1981.

The People's Bank official described the Liaoning market as "a very sensitive problem", adding that the State Council, or Cabinet, had not resolved what to do about the unauthorised gold dealing, which appears to have been sanctioned by local officials, but not necessarily by the provincial government.

Chinese officials have recently indicated an interest in involving foreign mining companies in the exploration and exploitation of China's gold deposits, but this would require amendments to regulations that expressly forbid such foreign involvement.

China has devoted much of its minerals exploration and development budget to the search for gold in the past two decades with limited success. Estimates of in-ground gold reserves stand at about 3,000 tonnes and were being added to at the rate of about 10 per cent annually.

Tropical timber 'bashers' attacked

By Geoffrey Pleydell in Kuala Lumpur

MR LIM Kem Yaik, Malaysia's minister of primary industries, yesterday attacked importing countries for "bashing" tropical timber exporting countries for their own ends. He said that those who criticised tropical countries should show goodwill and patience.

Speaking at the opening here of the 12th meeting of International Tropical Timber Organisation, Mr Lim called for an end to unilateral decisions to boycott the purchase of tropical wood by national governments and individual organisations. He cited the plight of Sarawak, Malaysia, where decisions to reduce tropical logging by 1.5m cubic metres in 1992 and similar amount in 1993 in response to ITTO recommendations had meant the loss of 26,000 jobs and US$50m.

Producer and consumer country members of the ITTO are divided over the future role of the organisation. Mr Lim restated his views that trade in timber from temperate forests should be considered alongside tropical interests. He said he wanted to see the present renegotiation of the International Tropical Timber Agreement expanded to include all world forests.

With less than 10 per cent of world international trade being in tropical wood and the rest of temperate origin, the minister said that the new agreement, scheduled to be in place by March 1994, should widen its scope.

But tropical timber importing countries do not agree.

Mr Menzo Baratini, spokesman for the European Community, pointed out that the ITTO was set up specifically for tropical timber and had developed principles and strategies aimed at ensuring sustainable management of tropical forests by the year 2000. The system of annual national reporting on progress toward sustainable management of productive tropical forests should be standardised, he said, adding that ITTO's real objectives should be in the field of trade.

The ITTO meeting takes place against a background of steeply rising prices for tropical timber from Asia Pacific sources. Sawn wood and plywood prices have leapt 40 per cent over recent months as log production and export in the Sabah and Sarawak States of Malaysia have fallen in response to moves to conserve forest resources in terms of sustainability and industrial requirements.

Cash shortage limits jute council projects

By Kunal Bose in Calcutta

THE INTERNATIONAL Jute Council, hamstrung by a lack of funds, could launch only two projects at its recent meeting in Dhaka. These were for the promotion of jute goods in Japan and the use of enzyme and microbiological process for upgrading low grade jute and jute cuttings.

According to a study by the United Nations Food and Agriculture Organisation, the consumption of jute goods in Japan, considered the most lucrative market for the fibre, has been declining by more than 4 per cent a year since 1973. The shrinkage in the demand for rice bags and carpet-backing cloth in Japan has hit in almost equal measure India, Bangladesh, Thailand and China. There has, however, been a marginal increase in the demand for jute yarn in Japan.

The jute council shares the view of exporting countries that the demand for jute goods in environment-conscious Japan could be given a boost through effective market promotion measures. Japan itself has agreed to underwrite the greater part of the market development expenditure.

The enzyme project holds great promise for all jute producing countries, as inferior quality jute constitutes nearly 30 per cent of total fibre production. It has been established on a pilot scale at two jute mills in Bangladesh that enzymic treatment leads to a significant improvement in fibre quality.

The project is to be financed by Canadian and French lines of credit.

Concern has been expressed at the council, however, about the poor funding prospects for projects that have already been appraised by its committee on projects. Among the more important projects crying out for funding are those concerning the development of jute-based packaging, diversified uses for jute blended fabrics, an improved spinning process, the introduction of high speed rapier looms, and the promotion of jute goods in the US, Australia and New Zealand. Work on some existing projects has also slowed down considerably for want of funds.

Russia seen importing less white sugar

RUSSIAN WHITE sugar imports will fall to 950,000 tonnes this year from 1.25m tonnes in 1992, a government advisory group said, Reuter reports from Moscow.

The Centre for Economic Research and Forecasting, in a study on the economy, put refined sugar production at 2.5m tonnes in 1993, unchanged from the previous year.

The study said the figure included output using raw sugar imports, which it said totalled 2.6m tonnes in 1992.

The centre, which draws on various official sources for its data, gave no figure for 1993 raw sugar imports.

Russia's state sugar purchasing company has said it expects to import up to 2m tonnes of raw sugar in 1993.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,635-1,690 (1,640-1,700).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.40 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.35-0.45 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 14.60-15.15 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 120-140 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.20-2.25 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.70-5.40 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 28-41 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.40-1.50 (1.45-1.55).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.10 (7.45).

UK's S Atlantic fishing licence move will anger Argentina

By John Barham in Buenos Aires

BRITAIN PLANS to introduce a fish licensing regime for the South Georgia and South Sandwich islands in the South Atlantic similar to the scheme operated in the Falkland Islands since 1987.

Last week the UK government announced that it would extend the 12-mile limit around the two island groups to 200 miles to halt over-fishing. British officials said yesterday that new fishing regulations were being drafted similar to those already being enforced around the Falklands.

Argentina reacted angrily to Britain's decision to extend territorial waters and will be doubly displeased by a unilateral move to charge vessels for the right to fish there.

Argentina claims sovereignty over the Georgias and South Sandwich islands as well as the Falklands.

In statements issued over the weekend, Argentine officials said the new 200-mile limits would indirectly grant Argentina a role in fishing policy because both island groups fell within the ambit of the 22-nation Commission on Conservation of Antarctic Marine Living Resources, of which both Argentina and Britain were members. British officials dismissed that suggestion, however, insisting that they would not accept any Argentine role that implied recognition of its territorial claims.

For the moment, the British announcement is only a formality as London lacks fishery patrol ships to enforce the extended limits. However, officials said it was considered important to announce it before the next fishing season began in February.

Britain and Argentina are to hold talks on a new fisheries regime in waters around the Falklands. No date has been set, but discussions are expected to begin in May or June.

Argentina last year introduced a licensing scheme for ships operating in its waters that is similar to the Falklands' regime and it has managed to poach most of the islands' best customers by offering cut-price licences.

WORLD COMMODITIES PRICES

MARKET REPORT

Three-month **COPPER** ended firmer, but closed below its highs on the LME after faltering near $1,800 a tonne. Dealers said the rally represented a much-needed technical correction after recent heavy declines. But whether the market could extend the recovery much further was doubtful, as fundamentals remained poor, and stocks continued to rise. LME warehouse stocks are at a fresh nine-year high of 403,475 tonnes. Precious metals drifted sideways in very narrow trading ranges on the London bullion market as **GOLD** paused for breath and the others lacked any fresh fundamental news, dealers said. New York failed to inject any life into the market as Comex opened lower, depressed by the firm dollar. "It's exceptionally quiet," said one dealer. Others said the gold market was becoming increasingly speculator driven as physical demand had dried up at current price levels. New York analysts said market participants were continuing to look for further news regarding Sir James Goldsmith after Monday's news that he had sold a large amount of stock in leading US gold producer Newmont Mining.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(May)		+ or -
Dubai	$16.36-6.39u	+.025
Brent Blend (dated)	$18.84-8.87	-.135
Brent Blend (Jun)	$19.09-9.12	-.085
W.T.I (1 pm est)	$20.38-0.41	-.105

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$216-217	+1
Gas Oil	$181-183	-1
Heavy Fuel Oil	$76-77	
Naphtha	$186-188	
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$356.45	-0.30
Silver (per troy oz)♣	427 5c	
Platinum (per troy oz)	$378.75	-1.65
Palladium (per troy oz)	$118.25	-0.60
Copper (US Producer)	88.0c	
Lead (US Producer)	34.83c	
Tin (Kuala Lumpur market)	14.25r	+0.07
Tin (New York)	260.5c	+2.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	140.03p	+2.84*
Sheep (live weight)†♠	132.18p	-1.86*
Pigs (live weight)†	88.78p	+0.90*
London daily sugar (raw)	$300.2	-2.4
London daily sugar (white)	$295.0	
Tate and Lyle export price	£307.5	
Barley (English feed)	£113.0	
Maize (US No. 3 yellow)	£166.5	
Wheat (US Dark Northern)	Unq	
Rubber (Jun)♥	67.25p	+0.50
Rubber (Jul)♥	57.50p	+0.50
Rubber (KL RSS No 1 May)	209.0m	
Coconut oil (Philippines)§	$420.0v	-5.0
Palm Oil (Malaysian)§	$372.5u	+1.5ov
Copra (Philippines)§	g470.0	+2.5
Soyabeans (US)	£176.5u	+1.5
Cotton "A" Index	60.80c	
Wooltops (64s Super)	345p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Aug/Sep. u-Jun. z-Apr/May. v-May. ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices. * change from a week ago. provisional prices.

SUGAR - London FOX ($ per tonne)

White	Close	Previous	High/Low	
Aug	305.60	302.00	306.00	300.00
Oct	298.00	293.90	297.50	290.00

White 197 (241) Paris- White (FFr per tonne): Aug 1660.75 Oct 1633.20

CRUDE OIL - IPE $/barrel

	Latest	Previous	High/Low	
Jun	19.12	19.10	19.14	19.03
Jul	19.09	19.08	19.12	19.02
Aug	19.16	19.15	19.18	19.10
Sep	19.22	19.26	19.23	19.18
Oct	19.23	19.30	19.26	19.23
Nov	19.25		19.32	19.25
IPE Index	19.21	19.20	19.21	

Turnover 29696 (37966)

GAS OIL - IPE $/tonne

	Close	Previous	High/Low	
May	180.25	183.75	183.75	180.00
Jun	178.00	179.50	179.50	177.25
Jul	178.75	177.75	177.75	176.00
Aug	177.75	178.00	178.00	177.00
Sep	178.50	179.50	179.50	178.50
Oct	181.50	182.25	182.00	181.50
Nov	183.75	184.25	183.75	183.50
Dec	185.00	186.00	185.75	185.00
Jan	185.25	186.25	186.00	185.50

Turnover 19702 (15492) lots of 100 tonnes

JUTE

C and F Dundee: BTC $330, BWC n/a, BTD $305, BWD $320. C and F Antwerp: BTC $315, BWC $325, BTD $295, BWD $295.

COTTON

Liverpool- Spot and shipment sales amounted to 220 tonnes for the week ended 7 May, against 176 tonnes in the previous week. Renewed Purchasing in many specialist styles attracted attention. American, Australian and Benin growths moved off freely as well as Pakastani styles.

COCOA - London FOX £/tonne

	Close	Previous	High/Low	
May	659	664	660	659
Jul	680	683	684	678
Sep	696	696	696	692
Dec	716	715	718	712
Mar	735	736	738	730
May	749	750	750	
Jul	763		763	
Mar	823	825	827	822

Turnover: 1741 (3247) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 11 703.67 (725.90) 10 day average for May 10 719.97 (721.58)

COFFEE - London FOX $/tonne

	Close	Previous	High/Low	
May	872	865	875	865
Jul	881	873	884	872
Sep	882	875	885	875
Nov	896	888	897	890
Jan	905	895	903	899
Mar	908	902	910	904

Turnover: 1427 (1401) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 10:Comp. daily 52.81 (52.75) 15 day average 52.55 (52.35)

POTATOES - London FOX £/tonne

	Close	Previous	High/Low	
Apr	92.0	92.6	92.0	91.5
May	98.0		98.0	

Turnover 32 (2) lots of 20 tonnes.

SOYAMEAL - London FOX £/tonne

	Close	Previous	High/Low
Oct	145.0	146.00	145.0

Turnover - (50) lots of 20 tonnes.

FREIGHT - London FOX $10/index point

	Close	Previous	High/Low	
May	1578	1577	1578	1570
Jun	1468	1472	1470	1460
Jul	1310	1317	1314	1310
Oct	1408	1410	1408	
BFI	1573	1571	1573	

Turnover 78 (155)

GRAINS - London FOX £/tonne

Wheat	Close	Previous	High/Low	
May	141.40	142.00	141.95	141.40
Jun	141.90	142.30	142.30	141.90
Sep	108.40		108.40	
Nov	110.25	110.75	110.50	110.20
Jan	113.25		113.40	113.25
Mar	115.90		116.20	115.90
Barley	**Close**	**Previous**	**High/Low**	
Sep	106.25	-		

Turnover: Wheat 296 (90). Barley - (-).
Turnover lots of 100 Tonnes.

PIGS - London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
May	115.0	114.8	114.8
Jun	108.5	109.0	108.0
Aug	101.0		101.0
Sep	102.5		102.0
Jan	109.0		106.0
Feb	106.0		105.0

Turnover:38 (15) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 31,426 lots	
Cash	1131.5-2.5	1121.5-2.5		1128-9		
3 months	1154-4.5	1144-5	1156/1150	1151.5-2.0	1151.5-2	177,984 lots
Copper, Grade A (£ per tonne)					Total daily turnover 71,037 lots	
Cash	1154-5	1129-30	1149.5/1149	1149-9.5		
3 months	1171-2	1148-9	1172/1164	1167-7.5	1168-9	191,331 lots
Lead (£ per tonne)					Total daily turnover 2,904 lots	
Cash	266.5-7.5	265.5-6.5	266.75	266.25-6.75		
3 months	276-6.5	275-5.5	276.5/275.5	275.75-6.0	276-6.5	20,158 lots
Nickel ($ per tonne)					Total daily turnover 8,418 lots	
Cash	5950-60	5975-85		5945-55		
3 months	6015-25	6045-55	6065/5995	6020-22	5995-6000	48,295 lots
Tin ($ per tonne)					Total daily turnover 1,456 lots	
Cash	5615-25	5620-30	5610	5610-5		
3 months	5675-80	5680-5	5700/5665	5660-5	5660-70	9,137 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 10,967 lots	
Cash	1014-5	1009.5-9.5		1011-2		
3 months	1033.5-4.0	1028-9	1034/1030	1031-2	1033-4	64,367 lots

LME Closing £/$ rate:
SPOT: 1.5420 3 months: 1.5313 6 months: 1.5212 9 months: 1.5124

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	356.30-356.60	
Opening	355.40-355.80	
Morning fix	355.35	231.57
Afternoon fix	355.35	230.67
Day's high	356.40-356.80	
Day's low	355.30-355.60	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.52	6 months	2.40
2 months	2.47	12 months	2.40
3 months	2.43		

Silver fix	p/troy oz	US cts equiv
Spot	275.85	424.40
3 months	279.75	427.35
6 months	284.00	431.00
12 months	291.95	437.85

GOLD COINS

	$ price	£ equivalent
Krugerrand	355.50-358.50	231.00-233.00
Maple leaf	368.55-368.90	-
New Sovereign	84.50-87.50	55.00-58.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jun	Sep	Jun	Sep
1075	63	96	4	9
1100	43	78	8	15
1125	26	61	16	23

Copper (Grade A)	Calls		Puts	
1800	56	86	59	82
1850	34	64	93	109
1900	23	47	120	142

Coffee	Jul	Sep	Jul	Sep
850	51	73	20	41
900	28	49	45	67
950	12	33	81	101

Cocoa	Jul	Sep	Jul	Sep
700	13	32	33	38
725	6	23	51	54
750	3	16	73	72

Brent Crude	Jun	Jul	Jun	Jul
1850	-	-	-	15
1900	6	31	1	-
1950	-	12	-	-

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	356.7	356.6	0	0
Jun	357.3	357.2	358.3	356.0
Jul	358.2	358.0	0	0
Aug	359.0	358.8	359.8	357.6
Oct	360.6	360.3	361.4	359.1
Dec	362.1	361.7	363.0	360.5
Feb	363.7	363.3	364.4	362.3
Apr	365.2	364.8	0	0
Jun	366.8	366.3	367.0	366.7

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	382.0	379.8	382.7	379.0
Oct	380.5	378.4	381.0	377.5
Jan	380.0	378.3	380.0	378.5
Apr	379.7	378.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	425.1	425.7	427.5	424.0
Jun	426.0	426.7	0	0
Jul	427.3	428.0	430.0	425.0
Sep	430.0	430.8	433.0	427.5
Dec	434.0	434.9	436.5	432.5
Jan	434.5	435.4	0	0
Mar	438.2	439.1	440.5	437.5
May	440.9	441.8	442.5	439.0
Jul	444.0	444.8	445.0	445.0
Sep	447.4	448.3	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	79.05	77.60	79.80	78.45
Jun	79.25	77.90	79.90	77.90
Jul	79.60	78.25	80.50	78.85
Aug	79.85	78.60	0	0
Sep	80.10	78.90	80.90	79.40
Oct	80.35	79.20	0	0
Nov	80.70	79.55	0	0
Dec	81.00	79.85	81.90	80.65
Jan	81.15	80.05	81.75	81.75
Feb	81.40	80.35	82.10	82.10

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jun	20.38	20.44	20.42	20.31
Jul	20.58	20.60	20.60	20.50
Aug	20.68	20.69	20.70	20.62
Sep	20.75	20.74	20.75	20.68
Oct	20.75	20.76	20.77	20.72
Nov	20.79	20.77	20.79	20.69
Dec	20.77	20.75	20.76	20.70
Jan	20.76	20.72	20.69	20.65
Feb	20.66	20.69	20.66	20.66
Mar	20.66	20.66	0	0

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jun	56.15	56.43	56.30	56.00
Jul	56.45	56.62	56.55	56.30
Aug	57.00	57.11	57.10	56.90
Sep	57.89	58.04	57.95	57.80
Oct	58.86	58.94	58.85	58.80
Nov	59.86	59.81	59.90	59.80
Dec	60.65	60.66	60.75	60.50
Jan	61.00	61.03	61.00	61.00
Feb	60.70	60.71	60.75	60.55
Mar	59.10	59.26	59.30	59.10

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
May	885	892	887	865
Jul	910	915	922	909
Sep	939	942	949	938
Dec	975	980	987	975
Mar	1008	1009	1018	1008
May	1031	1033	1036	1036
Jul	1051	1056	0	0
Sep	1071	1083	1076	1076
Dec	1105	1109	0	0
Mar	1135	1142	1140	1134

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
May	59.35	59.50	60.00	59.95
Jul	60.30	60.10	61.10	59.65
Sep	62.00	61.85	62.85	61.40
Dec	64.70	64.50	65.40	64.20
Mar	67.10	66.80	66.80	66.80
May	68.30	68.00	0	0
Jul	69.80	69.50	0	0
Sep	71.30	71.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	12.47	12.17	12.58	12.06
Oct	12.16	11.85	12.20	11.80
Mar	11.24	11.11	11.32	11.10
May	11.11	11.05	11.20	11.08
Jul	11.10	11.00	11.10	11.10
Oct	11.13	0	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	61.64	62.20	62.90	61.55
Oct	61.53	62.00	62.55	61.47
Dec	60.98	61.27	61.75	60.85
Mar	62.09	62.30	62.05	62.00
May	62.75	62.85	62.80	62.75
Jul	63.25	63.35	63.30	63.25
Oct	63.05	63.20	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	100.50	98.00	100.50	97.00
Jul	102.70	101.00	102.90	99.25
Sep	105.40	101.60	105.50	101.60
Nov	107.25	103.75	108.50	103.60
Jan	108.75	105.75	109.00	105.00
Mar	110.00	106.75	109.90	105.50
May	110.00	106.75	110.00	110.00
Jul	110.00	106.75	0	0
Sep	110.00	106.75	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)

May 11	May 10	mnth ago	yr ago
1663.1	1657.4	1663.5	1584.7

DOW JONES (Base: Dec. 31 1974 = 100)

	May.10	May.7	mnth ago	yr ago
Spot	119.61	120.02	121.29	117.72
Futures	120.90	121.67	125.06	116.80

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
May	603/6	602/2	604/4	600/6
Jul	604/4	603/4	606/0	602/2
Aug	604/4	603/6	606/2	602/4
Sep	604/4	603/6	605/6	602/4
Nov	607/4	606/6	609/0	605/4
Jan	613/4	613/0	615/0	611/6
Mar	619/4	619/0	620/6	618/0
May	621/0	621/0	622/6	620/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
May	21.26	21.21	21.39	21.14
Jul	21.44	21.42	21.63	21.34
Aug	21.53	21.52	21.73	21.47
Sep	21.64	21.63	21.84	21.56
Oct	21.74	21.74	21.89	21.70
Dec	22.00	21.97	22.10	21.92
Jan	22.08	22.08	22.23	22.05
Mar	22.25	22.25	22.40	22.25

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
May	193.3	192.8	193.3	192.3
Jul	191.6	191.8	192.0	191.3
Aug	191.7	191.9	192.0	191.4
Sep	191.9	192.2	192.1	191.5
Oct	192.2	192.3	192.3	192.0
Dec	193.3	193.3	193.7	193.2
Jan	194.0	193.6	194.0	193.5
Mar	194.2	194.1	194.7	194.2

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	225/4	224/6	226/0	224/6
Jul	229/0	227/4	229/4	227/4
Sep	233/4	231/6	234/0	232/0
Dec	238/2	236/2	239/0	236/4
Mar	244/6	242/6	245/0	243/0
May	248/4	247/0	249/2	247/4
Jul	252/2	250/4	253/0	251/0
Dec	247/6	247/0	248/2	247/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	353/6	348/0	354/0	348/0
Jul	293/4	293/6	295/0	293/2
Sep	296/4	297/0	298/2	296/2
Dec	307/2	307/6	309/0	307/0
Mar	313/0	313/0	314/2	313/0
Jul	310/0	309/4	310/0	309/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	77.125	76.950	77.225	76.975
Aug	73.950	73.825	74.050	73.825
Oct	74.400	74.150	74.525	74.250
Dec	74.350	74.025	74.400	74.100
Feb	73.775	73.500	74.000	73.650
Apr	74.850	74.525	74.850	74.600
Jun	71.700	71.575	72.050	71.700

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	50.950	50.875	51.225	50.450
Jul	50.425	49.925	50.550	49.775
Aug	48.250	47.750	48.300	47.575
Oct	43.125	42.550	43.200	42.300
Dec	44.275	43.875	44.350	43.800
Feb	44.100	43.850	44.300	44.100
Apr	43.000	42.850	43.000	0
Jun	48.550	48.550	0	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
May	42.125	42.525	43.350	41.875
Jul	41.975	42.450	43.350	41.650
Aug	39.900	40.325	41.100	39.825
Feb	41.500	41.400	41.800	41.150
Mar	40.400	40.400	0	0
May	40.500	40.500	0	0

NORTH AMERICAN FREE TRADE

Wednesday May 12 1993

Nafta supporters reckon the economies of the US, Canada and Mexico will all benefit from the treaty. Studies indicate a 'win-win-win situation', says one expert. Yet there will also be losers in the process of economic restructuring. Stephen Fidler reports

Problems to be resolved

SINCE the North American Free Trade Agreement was signed by the leaders of the US, Canada and Mexico last October, the political landscape of the region has changed. President George Bush, one of the accord's great supporters, is no longer in the White House and Mr Brian Mulroney, Canada's prime minister, has announced his intention to step down this year.

The Mexican president, Mr Carlos Salinas, is still in place, his great initiative to integrate the Mexican economy with its powerful northern neighbours now in the hands of a Democrat-controlled US Congress.

As a result, the Mexican economy and political system is in a state of great uncertainty. Mr Salinas wants the treaty, which brings together three countries responsible for more than 18 per cent of world trade, ratified this year. For him, it will set in stone the market-oriented economic policies he has pursued since assuming office in 1988. He hopes that the boost in economic confidence that will ensue will pave the way for the election of his party's presidential candidate in the 1994 election.

Nafta – the first reciprocal trade treaty between developed and developing countries – provides for the gradual ending over 10 years of tariffs and most other barriers to trade between Canada, Mexico and the US. Tariffs on some goods, such as agricultural products, will be phased out over 15 years.

It extends to Mexico trade dispute settlement procedures established by the existing US-Canadian free trade agreement. It lays out commitments on the treatment of services and investment and opens industries such as Mexico's petrochemicals and financial services sectors.

From the viewpoint of economic efficiency, the negotiations which concluded last year worked out better than many trade experts had predicted. But some sections have been criticised. Basic energy, for example, has been excluded from the agreement at Mexico's insistence.

In the words of Mr Gary Hufbauer and Mr Jeffrey Schott of the Washington-based Institute for International Economics, a "schizophrenic" regime has been established in textiles and clothing. They say origin rules for textiles and vehicle production force regional producers to source from less efficient suppliers within the region.

Supporters reckon that nonetheless all three economies will benefit from the treaty. According to Ms Nora Lustig of the Brookings Institution, most studies "indicate that there will be a win-win-win situation for the three countries."

This expectation is partly derived from the assumption that wage differences will lead to a mutually-beneficial division of labour: labour-intensive industry requiring fewer skills would migrate to Mexico while capital-intensive, highly-skilled work will concentrate in the US and Canada.

There is little disagreement that Mexico has most to gain. Mexico does about three-quarters of its trade with the US; its economy is a 20th of the size of the US and half that of Canada. Yet Mexico is of increasing significance to the other two economies. It is already a $40bn-plus export market for US goods, accounting for nearly 10 per cent of US exports, and it is a growing potential market for Canada.

Canadian exporters presently sell less than $1bn worth of products annually to Mexico, but Ottawa's interest in protecting the gains made in its bilateral free trade accord and in ensuring its continued importance to foreign investors looking at the North American market led it to support the accord.

The main economic benefits to Mexico may, however, come from increased capital inflows – and therefore the higher investment – that should be sustainable once the Nafta goes into effect.

Nafta proponents argue that the benefits from the US point of view may not be only, or even mainly, economic. The agreement would fix an outward, pro-Washington orientation in Mexican foreign policy, traditionally antagonistic to the US.

Economic growth would also provide stability in Mexico, better place it to address mutual environmental concerns and over time reduce illegal immigration to the US, which reached a record high last year.

Yet there will unavoidably be some losers. In the process of economic restructuring, companies in all three countries will close factories and many thousands of people will lose their jobs. Ms Lustig says that because the Bush administration had seen the overall economic impact of Nafta as positive, it had glossed over the problems of the losers in the US.

By contrast, the Clinton administration has decided to address these concerns. This has turned out to be important in any case to secure congressional passage for the treaty over an increasingly vociferous opposition. While opposition encompasses environmentalists and those with political concerns about Mexico's one-party rule, its most powerful US opponents – including Mr Ross Perot, the former presidential candidate – are worried about US job losses as companies are sucked southwards to exploit cheap Mexican labour.

The idea that imports produced by cheap foreign labour will reduce standards of living in the US resurrects a notion almost as old as economics itself. The reality is a bit more complicated: US workers get paid more because they are more productive.

Most of the Nafta losers in the US can be helped unilaterally by the US – through support and training for displaced workers, for example. Backing for a North American development bank to iron out economic dislocation within Nafta also appears to be gaining momentum on Capitol Hill.

The president has also insisted on supplemental agreements, now being negotiated trilaterally, over labour standards and the environment. The aim is to make sure that migration by companies, and therefore jobs, from the US to Mexico does not take place merely to take advantage of lax enforcement of Mexican labour and environmental laws. The side accords foresees supranational commissions to investigate disputes.

These side agreements have presented the US administration with a dilemma. It has recognised that the commissions have important implications for US sovereignty as well as Mexico's. The greater their powers, the more likely they are to be used against the US. Furthermore, to the extent that the side agreements are effective in addressing concerns of environmentalists and trade unions in the US, they will dilute some of the economic gains that Mexico expects to derive from the agreement. There are worries among Nafta supporters that the jobs and environment issues have become little more than a respectable cloak for the protectionist instincts of those who want to see the treaty killed. Reports from the negotiators, however, have suggested they are making important advances toward agreement.

For the Mexican government, the side agreements have extended the agony surrounding ratification. President Salinas has staked its prestige and economic policy on Nafta, which is important in ensuring the continuation of the government's economic reforms.

In the shorter term, it is needed to provide confidence that a current account deficit which reached $22.8bn last year can be financed. Mexico's financial markets are in thrall to day-to-day signals on prospects for ratification by the US Congress, a state of affairs that will prevail until the treaty is voted on by the US Congress, which could be as late as December.

According to Mr Peter Hakim of the Washington-based InterAmerican Dialogue, the US administration has been pushed on the defensive over Nafta because it is fighting on the turf of the treaty's opponents over the labour and environment issues. If the administration wants to secure passage, it should go on the offensive, presenting Nafta for example as part of its overall economic strategy.

The treaty is not yet a legislative priority for the administration. Although he continues to insist that the treaty will be ratified in time for implementation at the beginning of 1994, Mr Clinton is unwilling yet to risk political capital which may be more usefully employed elsewhere.

Mr Hakim and others believe that, once the side accords are secured, Mr Clinton has the ability, if he wants, to win ratification. "It'll pass if Clinton gets involved and shows leadership; it will not pass of its own accord," said Mr Mark Falcoff of the American Enterprise Institute in Washington.

Immigration is not falling despite more border patrol agents and fences

■ MEXICAN PERSPECTIVE: EMIGRATION

The picture is changing

The helicopter of the US immigration patrol is hovering above. its bright lights illuminating the farmland below. About 30-40 Mexicans – including about 10 women and a couple of teenagers – are getting ready to jump.

Leaning against the new eight-foot corrugated fence that separates the Mexican city of Tijuana from the US is Mr Jorge Sanchez, 30, a mechanic from Guadalajara. He is the sort of worker the Mexican government says will stay south of Rio Grande were the North American Free Trade Agreement passed, and more jobs created in Mexico.

But opponents of Nafta, and many academics, suggest that Nafta will encourage even more Mexicans to cross the border. Just as migration has increased since Mexico opened its country to trade in recent years, many economists point out that the free trade agreement will expose Mexico's remaining protected and inefficient sectors to competition – most notably agriculture, but also manufacturing – and could put hundreds of thousands of more labourers out of work.

Mr Sweder van Wijnbergen, former chief Mexico economist at the World bank, and Mr Santiago Levy, now a senior official in Mexico's trade ministry, calculated in a recent paper that freeing maize prices could force some 700,000 Mexican corn farmers out of work. Mr Raul Hinojosa-Ojeda, an economist at the University of California, Los Angeles, estimates that the treaty may increase Mexican emigration to the US by 600,000.

Mr Wane Cornelius, director of the Centre for Mexico-US Studies at the University of California, San Diego, takes a more sanguine view of the effects of Nafta on immigration, reckoning such studies exaggerate the dependence of rural workers on income from selling maize. He says that in the longer run immigration may fall when Nafta reduces the wage gap between Mexico and the US and creates jobs for displaced farmers in Mexican cities. But with wages in Mexico about one eighth of those in the US, this is sure to take a long time.

What is certain is that immigration is not falling by significant amounts despite the US recession last year and more border patrol agents, fences, and other mechanisms to reduce illegal immigration. Last fiscal year, the Border Patrol apprehended 1,140,574 illegal migrants, compared with 1,077,511 in 1991.

Such figures overstate the number of migrants trying to cross the border, given that the typical illegal worker will attempt to cross three or four times before succeeding. But according to the Colegio de la Frontera, a leading research centre for immigration, the flow of immigrants trying to cross into the US has remained unchanged recently, at about 300,000 a year.

The demand for cheap labour has shifted with agricultural needs being overtaken by household work, construction and light manufacturing

What has changed is the type of immigrant. While the vision of the wetback crossing the Rio Grande to look for work as a tomato picker was always exaggerated, surveys now show that most immigrants work in service, construction or light manufacturing sectors rather than in agriculture; most have left jobs in Mexico; stay more than a year in the US; and, increasingly, most are female.

Mr Sanchez, for example, is relatively educated, having stayed at school until 17. He comes from a large city, rather than the countryside and he intends to work in a Los Angeles factory or restaurant, rather than pick oranges. He has also brought his wife.

Mexico, which has traditionally seen migration as an escape valve for those unemployed, is now losing some of its more productive workers. Because these workers stay longer in the US, and therefore often take their families with them, they are less likely to send so much money back to Mexico, an important source of external finance for the country.

For the US, while immigration is becoming spread through different sectors of the economy, it remains concentrated in certain parts of the country. One half of the immigrants go to California.

Mr Cornelius says that the shift from a single, male, temporary, migrant to the longer-staying migrant family "will increase the effects of the Mexican immigration population on housing, schools, and health-care systems in localities that attract large numbers". As immigrants stay longer, their presence, he says, has raised racial tensions in some communities.

The change in Mexican migration has numerous causes. The demand for cheap labour has shifted in the US, with agricultural needs being overtaken by household work, construction and light manufacturing. According to a survey by Mr Cornelius of migrants from three rural villages, just 21 per cent worked in agriculture in 1988-89, down from 35 per cent in 1976.

It has also become more expensive to cross the border than in the past, meaning that very poor Mexicans cannot afford the trip. Mr Jorge Bustamente, head of the Colegio de la Frontera, reckons it costs about $200 to reach the border from the interior of Mexico – excluding the implicit cost of lost working days. Because of increased border patrol vigilance, it takes on average three or four attempts before a successful crossing is made, from one or two attempts a few years back.

The increased difficulty in crossing the border encourages immigrants to stay longer in the US, so as to recoup their fixed costs of travel. An illegal immigrant now stays an average 1.5 years in the US, up from the traditional period of four or five months.

The US Immigration Reform and Control Act of 1986 has also played its part. The act legalised some 3m illegal immigrants – most of them Mexican – and encouraged them to bring their wives and family from Mexico. Partly as a result some half of the Mexican immigrants who settle in the US are now women.

The act penalises employers who hire workers without legal papers. Rather than deter immigration, this has led to a thriving market in forged papers, still further increasing the cost of immigration. The necessary working papers can cost another $200-$300.

Damian Fraser

■ IMPACT ON MEXICO

Overwhelming importance attached to pact

Mexico remains deeply worried about Nafta.

On November 24 last year, Mr Jose Cordoba, the chief of staff to Mexico's President Carlos Salinas, was having lunch in an elegant Washington DC restaurant with Mr Samuel Berger, head of national security in the Clinton administration team, and Mr Barry Carter, another Clinton adviser.

For Mr Cordoba, the lunch was important enough that he flew to Washington especially for it. The Mexican government had barely concealed its preference in the US elections for President George Bush, and was worried the Clinton administration might (partly as a result) be less than enthusiastic about pushing for a rapid congressional approval of the proposed North American Free Trade Agreement.

Mr Cordoba thus turned salesman. In a private conversation obtained by the newspaper El Financiero and the weekly Proceso, and whose contents have been confirmed, Mr Cordoba said (with his remarks re-translated):

"For us, timing is everything. We would like to see this finished by the end of 1994... In December 1993 we will have a candidate for the presidency and the electoral process in Mexico will have started.

"It is very important for us to have finished this by then; that Nafta does not become mixed up with internal political affairs. By these dates, we would want to have left this matter behind us."

Mr Cordoba's remarks capture well the overwhelming importance the Mexican government attaches to Nafta. The presidency of President Salinas has come to be identified with the treaty. If it is passed, Mr Salinas will go down in history as the Mexican president who tied his country's economy irrevocably to the market principles of the US. If it is rejected, then his single most important initiative will have been seen to be a failure.

However, whether rejection would go so far as to lead to an economic collapse and nationalist backlash is questionable. Given the lack of grass-roots support for Nafta in the US, the Mexican government has exploited such an argument, in the belief this would step up pressure on the US administration and Congress to approve the treaty.

But were Nafta not approved by the US Congress, the government may want to intensify economic reforms, as a way of reassuring foreign and domestic investors that there will be no sudden change in government policy. As one senior government minister said earlier this year: "We will have to speed up structural change were Nafta not passed". This would be the preferred option rather than "shooting yourself in the foot" by reversing reforms, he said.

The government is believed to have a number of such reforms up its sleeve – such as the independence of the central bank, and news regarding membership of the Organisation for Economic Co-operation and Development (OECD) – in case the prospects for Nafta look dim.

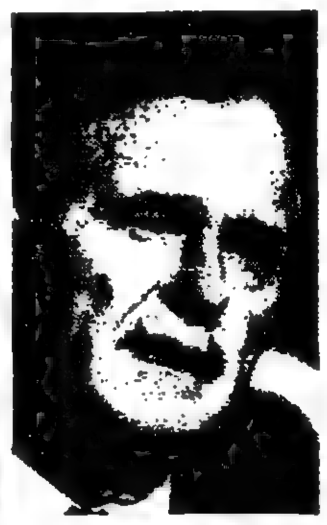
Similarly, while some analysts speculate that rejection of Nafta would encourage President Salinas to select a candidate with political savvy for the presidency next year, just as many say it would put the premium on a candidate with a strong economic background, given the need to assure investors, in the absence of Nafta, of the future direction of economic policy.

Even if the rejection of Nafta does not provoke a crisis, most investors in Mexico's stock market, and leading businessmen, reckon such an event would have some damaging short-term economic consequences. Mexico last year ran a current account deficit of $22.8bn, forcing the government to let interest rates rise to 18 per cent to attract short-term foreign capital. High interest rates and a budget surplus in turn helped slow economic growth to just 2.6 per cent.

Cordoba: became a salesman

Berger: head of national security

Salinas: most important initiative



Bush: preferred by government

Clinton: subject of concern

Investors reckon passage of the Nafta will reduce uncertainty about future economic policy in Mexico and thus encourage more foreign investment. This should allow interest rates to come down and government spending to increase, giving the economy a vital shot as it enters the last year of the Salinas presidency. Such reasoning explains how on any given day positive news about Nafta can lift the stockmarket 20 or so points, while negative news depresses it by the same or more.

Later in this year, concerns over Nafta may become worse as they feed speculation over the presidential succession. As Mr Cordoba indicated, the selection of the presidential candidate for the ruling party is expected to occur just after the congressional vote on Nafta (earmarked for December, according to one US adviser to the Mexican government). The confluence of uncertainties could drive even the most adventurous investors from Mexico's stock market and threaten the stability of the peso.

In an attempt to temper such uncertainties, the president has made sure that all the presidential candidates from the PRI broadly share his economic philosophy. The potential candidates – whether it be Mr Donaldo Colosio, the social development minister and current favourite, Mr Manuel Camacho, the populist-leaning mayor of Mexico City, or Mr Pedro Aspe, the finance minister – all worked under Mr Salinas in the budget ministry in the last administration and while differences remain between them they are unlikely to reverse current policies in any significant way.

Likewise, the government has been at pains to stress that the current austere macroeconomic policy will remain unchanged throughout this and next year. It is pressing ahead with further economic reform in the form of a new foreign investment law – to be introduced as part of the Mexican enabling legislation for Nafta some time in the summer – and more deregulation in the financial and industrial sector.

Despite such precautions the government is still biting its tongue. Indeed, Mr Cordoba returned to Washington recently to impress on the US administration the importance of the treaty for Mexico and Mexico-US relations. This time he was advised to stay clear of public restaurants.

Damian Fraser

■ MEXICAN CORPORATE STRATEGY

Companies gear up for implications

The prospect of Nafta is changing Mexican corporate strategy. When Modelo, Mexico's largest brewery responsible for Corona beer, announced last March it was selling 18 per cent of its company to Anheuser-Busch for $477m and then going public, history was made.

Mexico's best-known private company – which did not believe in debt and seldom disclosed information about itself – was going to have three Americans on its board, hire expensive foreign investment bankers to arrange an international offering, and bare all to the world.

Modelo, like practically all Mexican companies these days, buckled under the pressure of free trade, and the imminent North American Free Trade Agreement. As Mr Don Juan Sanchez Navarro, Modelo's vice-president, said, the tie-in with Anheuser-Busch "is an example of a strategic association that will be increasingly seen in other sectors" as companies gear up for the business implications of Nafta.

When Mexico was a protected economy, companies did not have to worry much about strategic alliances and other mechanisms to achieve international competitiveness because they had a captive market. But since the late 1980s, when Mexico tore down most of its trade barriers, and then in 1990 when it announced its intention to sign the Nafta, Mexican companies have though about little else.

Some Mexican companies – those in global industries – have aspired to be internationally competitive by becoming international companies. Others have signed joint ventures with world leaders so as to acquire the best technology and eliminate potential competition. But all are striving to improve productivity by seeking cheap capital, economies of scale, flexible labour contracts and new technology.

Cementos Mexicanos (Cemex) and Vitro, Mexico's two largest industrial conglomerates, have paved the way in turning themselves from strictly Mexican companies into global cement and glass producers respectively. In 1989, Vitro bought the US glass company Anchor Glass for $900m (including debt), making it North America's largest glass producer. Last year, Cemex bought the two Spanish cement companies, Valenciana and Sanson, for $1.85bn, to add to cement companies it already has in the US.

Cemex's acquisition was harshly criticised by foreign investors who had bought the company because of the fast-growing Mexican construction market. But Mr Lorenzo Zambrano, president of Cemex, said after the transaction: "If you stay small you become vulnerable. The global cement business is becoming increasingly concentrated and we need to stay with the leaders."

Cemex's fear was that if it stayed in Mexico, the large European cement companies (headed by Holderbank whose subsidiary, Apasco, is Cemex's rival in Mexico) would eventually move in for the kill – just as they did to US cement companies in the 1980s.

Vitro has signed joint ventures with Corning and Whirlpool

Such a strategy is likely to be followed by other Mexican companies in global businesses as Nafta comes into effect, says Mr Gustavo Cabellero, Cemex's finance director. "It is unsustainable in the long term to survive as a purely Mexican company in an open economy. What Cemex did will be followed by an increasing number of Mexican companies as they try to compete in international markets."

Indeed, soon after Cemex's acquisitions, a group of investors from the south-east of Mexico paid $499m for the US company Del Monte Fresh Produce, the fresh fruit side of Polly Peck International, the fruit and electronics conglomerate which collapsed in October 1990. Likewise, Mexican banks have bought stakes in financial companies in Latin America and are seeking to increase their presence in the US.

Most Mexican companies are still so far from acquiring global or regional leadership, or the cost of so doing is so prohibitively large, that the purchase of foreign companies makes little sense. Instead, they have sought to form joint ventures with world leaders. That way they can acquire technology, capital, access to the US and other markets, and eliminate potential competition.

Modelo will be using Anheuser-Busch technology and money in the construction of its eighth brewery, and inter-changing personnel as a way of learning from its huge American rival. Femsa, Modelo's rival in the beer business and Mexico's largest beverage company, has just sold 30 per cent of its soft-drinks division to Coca-Cola and hopes to benefit from Coke's expertise in marketing and technology. Femsa is now looking for a partner in its beer division to compete with Modelo.

Vitro, as well as buying up Anchor Glass, has signed joint ventures with Corning, the US glassware producer and Whirlpool, the white goods maker, enabling it to use these companies' distribution outlets to increase exports to the US, and sharing technology to lower costs.

Best-known have been the alliances in the retail sector, with practically all the big US chains – Wal-Mart, Fleming, Price Club and K-Mart – forming joint ventures with Mexican counterparts in the past 18 months.

The proposed Nafta will likely intensify this trend, by reducing trade barriers to the US for Mexico, and by making American companies more comfortable with signing joint ventures with smaller, less well-known Mexican companies. Foreign investment bankers are now eagerly examining the consumer goods market, the vehicle parts sector, textiles, and other industries, to see which foreign partners they can team up with willing Mexican companies.

Mr Jacob Zaidenweber, head of the American Textile Group, says of his sector: "The first stage of Nafta is the most important. Those textile companies that are going to survive will have to establish niches and low financing. Some are not going to, but those that do, will then be ready to form alliances with US companies. Production will move from Asia to North America."

The joint venture itself is no panacea under Nafta. Unless Mexican businesses improve productivity, many will be unable to compete in the wider North American economy. For most, this means divesting or eliminating areas where they are not competitive, and specialising production.

General Electric Mexico has, for example, stopped making light bulbs in Mexico because it is more efficient to import them from plants in the US which enjoy much greater economies of scale. Cemex has divested itself of all non-cement holdings except tourism. Desc is reducing, selling off, or closing petrochemical divisions where it cannot compete, concentrating more on consumer goods such as glue. As the Nafta is implemented more will follow suit.

Cemex has divested itself of all non-cement holdings except tourism

To remain competitive, Mexican companies will have to increase substantially investment in the divisions they retain, making the cost of capital critical to competitiveness. With Mexican borrowing rates at about 35 per cent, increasing numbers of Mexican companies are attempting to borrow cheaply in dollars, or raise money through equity in international offerings.

This has important implications for the way businesses are run. As Mr Don Sanchez Navarro recently put it at the annual stock market convention: "The relationship with highly sophisticated and demanding foreign investors has led to pressure for results, better information, a more efficient business, to open new markets, to improve quality, and to obtain the desired international competitiveness."

Mr Gilberto Borja, the head of ICA, Mexico and Latin America's largest construction group which went public last year, told the same convention: "We accepted [in 1991] that given new expectations, the internal generation of resources, based on an aggressive policy of re-investing profits, with which we had built up our capital, would be insufficient. In consequence, we took the decision to go to the capital markets.

"Internally, this signified a profound change in the policies that we had maintained throughout our history. From being a closed company – the exclusive property of the active partners in the company, with capital 100 per cent a result of our work, that did not require giving out information bar the essential – we turned into an open business."

In the past couple of years Videovisa, Gigante, Televisa, ICA, Dina, Grupo Herdez, and others have gone public. 18 banks and the telephone company have been privatised, and practically every leading company has issued new equity. Other private companies, such as Modelo, Gutsa, or GMD, are intending to go public.

Mr Roland Wojewodski, head of Latin America for JP Morgan says: "What is happening in Mexico is that a lot of privately owned companies are looking two or three years down the line. They are going public to raise financing; they are looking at joint ventures; and they are increasing financial capabilities to take advantage of new opportunities."

As part of the process of increasing productivity, Mexican companies are also having to change their relations with labour. In the past, labour contracts were usually negotiated sector by sector and were affected as much by the political importance of a union to Mexico's ruling party as by the demands and needs of individual businesses.

Last year, important strikes were broken – such as one in the textiles industry – and this will allow negotiations to be conducted company by company. Other strikes were – probably illegally – overcome, enabling companies to introduce more flexible working practices.

Damian Fraser

■ JOBS AND LABOUR MIGRATION

Conflicting predictions

"THE first rule of war is don't shoot yourself. Our trade agreements, including this one, violate this rule." Pithy comments like this entrance the worshipful hordes which still support Mr Ross Perot, the Texas billionaire and former presidential candidate.

It was with these words that Mr Perot announced that because the North American Free Trade Agreement could "suck" as many as 5.8m jobs out of the US economy, he would oppose the pact. Even worse news for the Clinton administration is that he is buying television time to broadcast "an educational campaign" against the Nafta.

The study Mr Perot produced to support his conclusion focused particularly on US manufacturing industries with high costs and easily transferred technology. It contradicts one of the most cited reports – Nafta: *An Assessment* – released in February by Mr Gary Hufbauer and Mr Jeffrey Schott of the Institute of International Economics. Their report shows a gain of about 171,000 net new US jobs by 1995, although the authors also acknowledge that in the long run the US could show a small net loss.

Perot: said the Nafta could 'suck' 5.8m jobs out of the US economy

The Economic Policy Institute, which receives labour support, has predicted a loss of 500,000 American jobs in 10 years. The US International Trade Commission has projected long-term gains in aggregate employment at less than 1 per cent for the US and Canada but up to almost 7 per cent for Mexico.

From more than 20 studies of the Nafta, only this much is clear: No one really knows how many jobs will be created or lost, numbers can be found to boost every contention, and whether or not there is a Nafta, US workers will continue to lose jobs as companies seek cheaper labour south of the border or in Asia.

Although the ITC also concluded that there would be an almost indiscernible effect on US wage rates for both low-skilled and high-skilled wages, American unions worry that US wages will be forced downward as workers compete with lower-paid brethren in Mexico.

To assuage labour's concern, the Clinton administration has promised to negotiate a side agreement which would ensure that Mexico enforces the strong labour laws it now has on the books. Otherwise, the unions say, the "exploited" young Mexican workforce – 30m strong and growing – will never freely share in the Nafta benefits and rising living standards.

Labour is supported by a number of Democratic congressmen and senators. Rarely does a month go by without a group of lawmakers flying down to Mexico, only to return shaken by the working conditions. Mr Richard Gephardt, leader of the House of Representatives Democratic majority, recently described a visit with a group of Mexican workers.

"Despite their living conditions, they all were proud people. They couldn't understand why the system didn't work for them. Why the unions didn't represent them. Why the rich got richer and their lives never seemed to change," he told a congressional committee.

He talked of the workers at a Sanyo plant in Tijuana who earn an average $50-$55 a week, and whose manager said that once the Nafta was signed, no US companies with labour-intensive production would be able to survive the competitive pressures without moving to Mexico.

"I will not support a Nafta on a leap of faith," he said.

Most of the US business lobby believes that market forces alone will raise the income levels in Mexico, creating a strong market for US and Canadian goods. The conservative Heritage Foundation puts forth this scenario: With a Nafta, Mexican economic modernisation will accelerate. Because about 80 per cent of all its capital equipment is US made, American industries are likely to expand production and hire more workers.

These companies will not relocate because the Mexican workers and infrastructure are not capable of supporting high-technology production. As Mexico grows, the demand for skilled manufacturing in the US will grow, placing upward pressure on US wages.

Advertising ventures by Mexican entities hoping to lure American companies to their areas have been throwing fuel on the flames of union discontent. A recent advertisement in *World Trade* magazine sold the Yucatan as a businessman's paradise "where labour costs average under $1 an hour including benefits and the employee turnover rate is less than 5 per cent a year. "You could save over $15,000 a worker..." said Yucatan's Department of Industrial and Commercial Development.

If the Clinton administration is ever to overcome the fears produced by such untimely advertising ventures, then money must also somehow be found to retrain American workers who lose their jobs to the Nafta. President George Bush promised $10bn in new funding over five years on training and adjustment assistance ($335m would be for Nafta); President Clinton has yet to reveal his plans.

In its negotiations on the side agreements, the administration seems to envision the establishment of a tri-national commission which is more a watchdog than an enforcement agency. Mr Ron Brown, the US Commerce Secretary, urged business in Mexico to reform itself voluntarily.

"You must demonstrate your commitment to high environmental and labour standards, to job growth and the health of the North American economy," he told businesses in a recent speech. "For some this may require a fundamental change in attitude, a willingness to re-examine your operations and maybe even a change in your processes."

Even some business leaders believe such exhortations will not be enough. The Economic Policy Council of the United Nations Association of the US, composed of business and labour leaders and academics, recently called for an effective enforcement mechanism and a timetable for the upward harmonisation of North American labour standards.

Mr Paul Allaire, chairman of Xerox Corporation and co-chairman of the Council, said the supplemental labour pact must ensure an equitable distribution of benefits of Nafta and protect US interests in a more integrated North American economy. *Mr Jack Sheinkman*, the other co-chairman and president of the Amalgamated Clothing and Textile Workers Union, said that only "steady improvement in Mexican incomes will alleviate competitive downward pressure on US and Canadian wage rates, reduce the incentive for illegal immigration and increased Mexican demand for US and Canadian goods."

Brown: urged business in Mexico to reform itself voluntarily

While the Nafta negotiators have been wrestling with the make-up of the Trilateral Labour Commission, Mr Jagdish Bhagwati, professor of economics at Columbia University, has found a way around the administration's reluctance to interfere with Mexican sovereignty.

The US Congress can legislate rules for American companies in Mexico which require that they "act entirely up to our standards," he said.

"It would thus strengthen the ability of the Clinton administration to reject the outlandish demands that Mexico, despite its poverty, do much more for the environment and labour than it can current afford and that it replicate our regulations and standards on each industry," Mr Bhagwati concluded.

Nancy Dunne

■ THE VIEW FROM CANADA

Subtle shift in attitude

The attitude of Canadians towards North American free trade has undergone a subtle but perceptible shift since the fiery debate which dominated the 1988 election campaign. Instead of arguing about free trade, Canadians are learning to cope with its challenges and opportunities.

Recent opinion polls show that a majority still oppose the bilateral pact with the US which came into force in January 1989, as well as the wider Nafta deal. But the polls also point to a rising number who, however reluctantly, have come to accept that there is no turning back.

A plethora of anti-free trade groups *still* dot the political landscape, raising many of the same arguments against Nafta that were heard in 1988. They contend that the agreement will deprive Canada of control over its natural resources, especially energy, and divert investment to Mexico.

Mr Bob Rae, Ontario's social-democrat premier and one of the most vocal opponents of both the FTA and Nafta, predicted recently that "companies in Ontario will insist that if they are to compete with enterprises in Mexico, Ontario workers *must* reduce their wages or face job losses."

Generally, however, the reaction to Nafta has been far more muted than to the four-year-old deal with Washington.

The House of Commons has already approved Nafta legislation in principle and is set to ratify the deal by the end of June. Free trade is unlikely to ignite the same passions in the election due later this year as it did in 1988.

One reason is that the Liberals, the main opposition party, are divided on the agreement. Another is that Mexico is a miniscule trading partner in comparison to the US. Canada's imports from Mexico currently run at only about 1.8 per cent of purchases from the US.

Finally, just about *all* that can be said about free trade has been said over the past six years. Free trade is not dead as a political issue, but it has come to be overshadowed by other controversies.

Implementation of the 1989 agreement has, however, proved to be a wrenching experience for Canadian companies and their workers.

The provisions of the FTA are relatively modest. They include the gradual elimination of customs duties over 10 years, liberalised rules on US *investment in Canada and the* highly successful system of binational panels now used to settle protracted trade disputes.

Bob Rae: one of the most vocal opponents of the FTA and Nafta

But the FTA coincided with such other pressures as the slump in domestic demand, low commodity prices and rising taxes. In addition, the prospect of lower trade barriers has encouraged companies on both sides of the border to rethink the way they do business in North America. They have spent the past four years rationalising and integrating US and Canadian operations in much the same way as the motor industry did in the years after the 1965 Automotive Pact.

US multinationals typically no longer view Canada as a "branch plant" country, but as part of their domestic operations. Instead of producing an item at two or more factories on each side of the border, companies such as Procter & Gamble, Campbell Soup and Stanley Tools now supply both countries from a single plant.

Almost all of Canada's large flour mills are now either owned by US companies or have US joint-venture partners.

The move towards a free-trade zone has brought a gust of competition to the labour market, straining traditionally friendly relations between US *and Canadian trade unions.*

The tensions are illustrated by a dispute at an instant-coffee factory south of Ottawa owned by Nestlé, the Swiss food and beverage company. Nestlé, which has excess capacity in North America, locked out the Canadian workers in March after they refused to accept more flexible over-time rules which have become standard practice at the company's two US plants.

Even Canada's farmers, long accustomed to special protection, have not been immune from the pressures. For example, Canadian brewers have complained that high domestic prices for malting barley are putting them at a disadvantage to US brewers. The US industry pays lower prices for Canadian barley which then finds its way back across the border in US beers.

Ottawa signed the Nafta deal last year mainly to protect gains made in the FTA and to ensure that Canada would continue to compete for foreign investors eyeing the entire North American market.

Many Canadian companies have seized the opportunity to take a closer look at trade and investment in Mexico. A record 4,500 exporters visited the commercial division of the Cana*dian embassy in Mexico City* last year.

While Ottawa is scaling back diplomatic representation in other parts of the world, it recently opened a trade office in Monterrey.

Canada's exports to Mexico soared by 37 per cent last year to C$771m, due largely to sales of cereals and other foodstuffs. Imports were up by about 8 per cent to C$2.8bn.

Bank of Nova Scotia paid C$90m for 5 per cent in Grupo Financiero Inverlat

Mexico's burgeoning economy and improved payments record has encouraged Canadian banks to increase their trade credits and to reduce rates on export finance. Bank of Nova Scotia paid C$90m last autumn for a 5 per cent interest in a Mexican financial institution, Grupo Financiero Inverlat SA.

A recent study by the Conference Board of Canada predicts that Canadian exporters of grains, oilseeds, livestock, textiles, oil and gas services, telecommunications equipment and engineering services are among those which will benefit from more liberalised trade and investment rules under Nafta.

On the othe hand, Canadian industries at risk from labour-intensive, standard-technology Mexican exports include clothing, footwear, metal fabrication, machinery and electrical *products*.

Canadian officials and businessmen also have a less tangible – but very real – concern that implementation of Nafta may be hampered by cultural differences between the US and Canada on the one hand, and Mexico on the other.

They wonder to what extent political corruption in Mexico will interfere with efforts to bring down trade barriers. They also question the ability of the Mexican government to enforce a complex multilateral agreement whose provisions in many cases will override domestic laws.

One Canadian official predicts that the different ways of doing business north and south of the Rio Grande will create many "hassles" over the next few years.

Bernard Simon

■ WINNERS AND LOSERS

Wide-ranging consequences

The hundreds of hard-fought compromises which form the framework of the North American Free Trade Agreement will have impacts far beyond what negotiators have envisioned.

No one expected, for example, that a big beneficiary would be Pilkington Brothers of the UK, the world's leading flat glass producer. Pilkington has a 35 per cent share of Vitro, a Mexico-owned holding company which has secured real gains in the deal.

The US flat glass industry is aghast at what it calls "an enormous disparity between the US and Mexican tariff rates." With no apparent success thus far, it has been urging the US Trade Representative to force Mexico to renegotiate the flat glass provision of the Nafta.

This disparity is by no means a new one. The average US tariff on dutiable imports of Mexican flat glass is 4.8 per cent. Mexican duty rates are 20 per cent on most US flat glass. But the US industry is arguing that the gap between the two will widen after the Nafta goes into effect.

Meanwhile, the US market is already oversupplied. "Vitro's monopoly position in the lucrative Mexican market permits it to use profits both to further expand its capacity, aggressively acquire US firms and US market share and expand its already highly developed distributional structure in the US," according to Mr John Reichenback Jr., an industry business analyst. "Unless the present tariff disparity is eliminated the US flat glass industry estimates that the Mexican flat glass monopoly will capture at least 13 per cent of the overall US flat glass market."

Like the US flat glass industry, other Nafta losers are trooping up to Capitol Hill to plead for changes in the pact. The winners, however, are fighting to retain the advantages they have gained. Some sectors have both winners and losers.

American agriculture is a loser and a gainer. Vegetable and fruit producers in Florida are convinced their days in business are numbered if they have to compete – even after a 15-year phase-out – with Mexican imports. US exports of barley and maize and expected to soar. American soyabean meal will do well, as will rice, wheat and fats and oils.

However, US sugar producers are up in arms about the pact, saying Mexico will re-export to the US large quantities of cheap sugar imports.

According to the International Trade Commission, the US automotive parts industry will gain considerably in the long term, but US car production will be ultimately a loser.

Upon implementation of the pact, tariffs on US vehicles will be eliminated immediately. The phase-out is longer – 10 years – for automotive parts. Mexican tariffs on US cars and the rest will be phased out over 10 years. Mexico's tariffs on 75 per cent of its imports of US automotive parts will be eliminated over five years with the rest to be eliminated over 10 years.

American service industries, clearly advantaged by the pact, will have new opportunities through both cross-border trade or investment in Mexican enterprises. The ITC says US investment in Mexican telecommunication and banking services could increase by 6 to 15 per cent. Investment in Mexican transportation services could rise by even more over the long-term. Removal of Mexico's restrictions on foreign equity ownership in the insurance market may result in expansion of US investment by 16 per cent or more.

The US energy sector is a partial winner in the deal. Mexico resisted opening most of its energy market for foreign participation, but where it liberalised it will gain access to high quality foreign expertise and equipment. According to a report to Congress by the Industry Policy Advisory Committee, the Nafta will promote trade in natural gas by establishing the right of all Nafta producers to negotiate supply contracts directly with end-users.

The pact enables independent power producers and electric utilities to negotiate power purchase and sales contracts; reduces the number of petrochemicals reserved to the Mexican state to eight and makes the rest available for 100 per cent foreign ownership; and provides for expanding commercial arrangements in the electricity sector.

Over the short term, the US is likely to import more Mexican bearings, household glassware and steel mill products. Its exports to Mexico will rise in the following sectors: bearings, machine tools, steel mill products, pharmaceuticals, industrial machinery, chemicals and household appliances. In the long-run both the US and Mexico are expected to increase to each other sales of vehicles, computers, textiles and apparel and ceramic tiles.

The pact has spurred hopes and anxieties in Latin America. There is concern that the advantages Mexico will gain in some markets, such as sugar and textiles, means losses for its southern neighbours, and that zero tariff benefits granted to developing countries through the US Generalised System of Preferences will be neutralised by Mexico. Investment which might have gone to the Caribbean and other low-cost producers may be diverted, and in Latin America Mexico will get the first boost towards acquiring the technology of the 21st century.

The Clinton administration has been at pains to assure the Latin leaders that it shares the vision of its Republican predecessor of a hemispheric-wide free trade agreement. But it also being urged to look to the Pacific Rim for free trade deals to discourage the formation of an aggressive super-competitive Asian trade bloc.

Japan has expressed worry about the Nafta, but no external tariffs will be raised against Japanese products. The rules of origin will make it more difficult for Japanese companies to use Mexico as a springboard into the US market.

The biggest losers may be those Asian countries whose cheap labour has been the comparative advantage which draws foreign investment. Many companies might now shift production to Mexico where there is additional gain in lower transportation costs.

Nancy Dunne

■ ENVIRONMENTAL ISSUES

Negligent neighbours

As trucks carry goods back and forth across the international bridges, cities on both sides of the US-Mexican border suffer from the same smog, fed by the same idling traffic.

Hazardous wastes dumped near the border by factories seep into the groundwater, contaminating goods sold in both countries.

The Rio Grande is the main source of drinking water for Texans in the Lower Rio Grande Valley. But every day Mexicans use the river as a depository for raw sewage.

Environmental negligence is linking the two neighbours ever more closely as each year passes and, as the American Medical Association recently noted, the unchecked pollution is "seriously threatening health and future economic vitality on both sides of the border."

If the North American Free Trade Agreement fails to win approval by the US Congress, there is little hope that the hazards growing out of Mexico's industrialisation will be soon be addressed. Billions of dollars are needed for the clean-up and, on the Mexican side, for inspectors and their training. Both governments' budgets already are stretched.

The Nafta is expected to accelerate foreign investment and Mexico's industrialisation. Much of this could be in "dirty" industries. A 1991 World Bank report found that between 1981 and 1989 about one-tenth of Mexico's export earnings were derived from pollution-intensive products such as cement, chemicals, pulp, paper, and petroleum. Yet, supporters of the Nafta argue, only increased economic development will provide funds for the clean-up and enforcement of environmental standards.

The debate over Nafta is dominated by suspicion and mistrust on both sides. Proponents of the pact believe that labour has taken up environmentalism because it is more intellectually respectable than protectionism.

President Clinton's proposal to address the issue by creating a tri-national environmental commission in a side agreement has "the potential to undo much of the good created by the Nafta," says the conservative Heritage Foundation. Protectionists will seize on the side pacts "as vehicles by which to reintroduce the trade restrictions Nafta is intended to eliminate."

Opponents of the Nafta portray it as a pact with the devil – an undemocratic government – made on behalf of heartless multinational corporations which have no other objectives but to exploit Mexican resources and workers.

They say that is all very well to promise that Nafta will raise money for a clean-up, but that it is necessary to identify a fund-raising mechanism – such as a cross-border tax – to ensure that the money for a clean-up is there.

The Clinton administration is trying to find an acceptable middle ground

Pro-Nafta groups are adamantly opposed to a border tax and the Clinton administration also does not like it much. Officials say it will raise only $300m a year and raise tariffs, which are scheduled to be cut to zero, by an average 40 per cent.

What is lacking in Mexico is not strong environmental law but environmental enforcement. For example, a recent study by the US General Accounting Office found that none of six US majority-owed maquiladoras – manufacturing plants that assemble components imported tax-free for re-export – studied had prepared the environmental impact assessment required under Mexican law.

In the supplemental agreement now being negotiated, the Clinton administration is trying to find an acceptable middle ground to improve enforcement. But much is being demanded by influential members of Congress who carefully tend their green credentials. And most of the business lobby would like nothing to emerge from the current talks with Mexico and Canada.

The environmentalists want to establish a strong formal commission composed of the three countries' environmental ministers and an independent secretariat with environmental expertise. Its operations would be transparent and experts would play a strong role in the decisions.

Each country would enforce its own environmental standards. Mexico would allow its citizens to go to court if enforcement lagged. Corporate polluters could be punished after a dispute settlement process or through trade sanctions.

The environmentalists insist that nothing be allowed to weaken local, state or regional environmental standards. Countries must be allowed to restrict trade if it is produced through environmentally destructive processes such as the drift nets used to catch tuna, which also catch dolphin.

Environmental measures would be judged as trade barriers only if the decision-making process and justification for a contested measure is "arbitrary and capricious" and intended to discriminate against a foreign product.

Thus far, Mr Mickey Kantor, the US trade Representative, has been reluctant on most of these points. He worries that a strong environmental panel would require the three governments to yield national sovereignty to a non-national body.

This sovereignty argument was addressed by the Canadian-American Committee in a book of essays entitled *Ties Beyond Trade*.* It pointed out that all international agreements have binding commitments affecting sovereignty, but these intrusions have become acceptable over time.

"Plainly, setting tariffs is as much a sovereign act as specifying product standards or offering subsidies, and Gatt tariff bindings and disciplines on non-trade barriers are an intrusion into national sovereignty," it says. "Constraint on sovereign powers is the price that national governments have accepted in return for the economic benefits created by increased access to foreign markets and specialisation among countries."

However, there is no consensus view yet on the level of interference to be allowed in subverting domestic sovereignty over environmental laws. However, says *Ties Beyond Trade*, this debate is "no more and no less an affront to Mexican sovereignty than Mexican efforts to seek constraints on US and Canadian application of dumping and other trade remedy laws would be an affront to US and Canadian sovereignty."

**Ties Beyond Trade, Labour and Environmental Issues under the Nafta. Canadian-American Committee, sponsored by C. D. Howe Institute (Toronto) and National Planning Association (Washington, DC).*

Nancy Dunne

■ EXTENDING THE TREATY

Conflicting objectives

MEXICO City is not the only Latin American capital closely following the Nafta debate in Washington. For some countries, notably some smaller economies in central America and the Caribbean, the concern is that Nafta will divert trade away from them towards Mexico.

That concern has been intensified by criticism from the Clinton administration of the Caribbean Basin Initiative, which offers special treatment for the region's goods in the US market.

Some other governments are seeking clues about whether the pact can be extended southwards. The Clinton administration has professed itself open to the extension of the agreement to the rest of the region, citing Chile as the next candidate. Mr Mickey Kantor, US trade representative, has also spoken of Argentina and Venezuela joining the pact.

But if Nafta fails in the US Congress – or is delayed so long that the Mexican government decides the political cost of the agreement is too high – this possibility becomes remote indeed. "The rejection of Nafta at this stage would gut the core of future hemisphere-wide trade arrangements," said the InterAmerican Dialogue in a report published in December.

"If the 800lb gorilla doesn't have the political weight in Washington to secure a free trade agreement," says Mr Mark Falcoff of the American Enterprise Institute speaking of Mexico, "what chances do the others have?"

The idea of a western hemisphere free-trade agreement, mooted by President George Bush as part of his Enterprise for Americas Initiative in June 1990, was greeted enthusiastically by most Latin governments.

This was despite differences over the trade benefits of such agreements. A study published early last year by Mr Refik Erzan and Mr Alexander Yeats, two World Bank economists, suggested the trade gains of free trade arrangements with the US would be limited for most Latin American countries.

This was mainly because most Latin countries – in contrast with some Asian economies – already faced a relatively open market anyway in the US under the Generalised System of Preferences. Only Mexico and Brazil – the latter a likely loser from Nafta because its mix of exports is, of all Latin countries, most similar to Mexico's – stood to make significant trade gains from free trade with the US.

Percentage of trade with the US (1991)

Country	Exports	Imports
Argentina	9.7	28.2
Brazil	20.3	23.6
Chile	17.7	23.7
Colombia	40.5	37.7
Mexico	78.5	70.8
Peru	25.0	24.9
Venezuela	50.7	40.4

Source, IMF Direction of Trade Statistics

This conclusion is not universally accepted. However, there is much wider agreement that the benefits of free trade accords with the US are not limited to export gains. The bigger benefits may come in enhanced investment flows: market size is an important factor in the decisions of companies making foreign direct investment decisions.

Furthermore, the signing of an international treaty offers additional protection for investors by locking in policies that provide some assurance that investments will not be expropriated by future governments.

Such accords improve the prospects for economic co-ordination among regional partners. Importantly, at a time when the future of the world trading system is being questioned, they offer some insurance against a more restrictive world trading environment.

Yet there is little doubt that, at least in some quarters of the US administration, the view of the benefits of free trade agreements with Latin America is different from that of the Bush administration.

Mr Kantor has spoken of the importance of Nafta in "harmonising upwards workers' standards." The Clinton administration's overall thrust for Latin policy, inasmuch as any guidance has been given in public statements, lays more emphasis on such social and environmental concerns than the Bush administration.

If this suggests free trade agreements being used as levers to obtain improved social and working conditions in Latin countries, it contrasts with the Bush administration philosophy which implicitly assumed – at least until its final year in office – that encouraging growth would take care of other problems.

The implications of this for the sovereignty of Latin governments are potentially substantial. Some of those administrations with less to gain than Mexico from an agreement – in other words, most of the continent – may thus be less disposed to free trade with the Clinton administration than they would have been with a Bush administration.

There are other complications. There is no doubting that, in contrast with the past, regional economic integration is now a practical possibility because of the openness of most Latin economies. There is no doubting either the political weight behind regional integration. However, what has developed is a patchwork of regional groupings with sometimes potentially conflicting objectives.

One example, but by no means the only one, provides an illustration. Argentina is committed to Mercosur, the proposed customs union which groups it with Brazil, Uruguay and Paraguay. Brazil's economic instability threatens to destabilise the Mercosur timetable. But not only that: Argentina's recent good economic record makes it a potential candidate for Nafta, as Mr Kantor has noted.

Brazil, on the other hand, is economically a long way from the point at it which it could conceive of joining Nafta and the political interest in the topic in Brasília is – unlike in Argentina – currently lukewarm. Yet Argentina and Brazil are committed to negotiate together in Mercosur their trade arrangements with third parties such as the US. Something will have to give.

Stephen Fidler

■ THE NUTS AND BOLTS

Lessons from earlier pact

WHEN US, Canadian and Mexican negotiators sat down to produce a framework for the North American Free Trade Agreement, they had three years of experience to draw on from the US-Canadian pact.

The first trade accord had worked well in most areas and had successfully boosted trade. The bipartisan dispute settlement mechanism had been successful in defusing a number of disputes – more often to the Canadians' liking than the Americans' – but both sides saw the need for important "clarifications" for the process of reviewing anti-dumping and countervailing duty cases, said Mr Jules Katz, former Deputy US Trade Representative.

Both agreements stress that "consultation" is the best way to resolve disputes, but they set timetables for settlement. In the Nafta, if a dispute is not settled within 30 to 45 days, a government can request a meeting of the cabinet-level, three-member free trade commission. If the commission cannot solve a dispute, a panel is selected from a roster of trade, legal and other experts.

Most cases were expected to concern all three countries, Mr Katz said. Panels have four months to decide an issue and if a dispute is not resolved within 30 days after that decision, then the injured country can impose sanctions.

On the rules of origin question, there had been even more controversy and even more concern about "the pass-through" potential for foreign businesses using Mexico as an export platform to the north. The US and Canada, having fallen into a dispute about the level of domestic content in Hondas, were both anxious to clarify the means of calculating the level of North American content. Negotiators apparently learned well their lessons from the FTA. When the agreement was finished, the Industry Policy Advisory Committee which advises Congress on the impact of trade agreements, gave an enthusiastic thumbs up: "The Nafta rules of origin have a level of clarity and detail for which the negotiators should be congratulated," the advisers said. "The Nafta customs provisions represent an improvement over the FTA and provide a sound basis for regulating and classifying goods."

Basically, goods are considered to be made in North America if they are manufactured there or products from elsewhere have been "substantially transformed" so that they are moved to a different tariff classification.

Special rules were devised for vehicles, computers and textiles. To meet the concerns of Canada, which wants to give its vehicle factory-owners time to adjust to stricter rules, the local content standard will remain 50 per cent for four years, the current minimum under the FTA. It will then rise to 56 per cent for four more years and reach 62.5 per cent after eight years.

Mexico will phase out its 20 per cent computer tariff for the US and Canada and will seek to harmonise its external tariff with the US and Canada, lowering it to 3.9 per cent for all other countries. Computers will be required to contain a North American-made motherboard, a big component that usually accounts for 20-40 per cent of the value of the computer.

Mexico will phase out its tariffs for US and Canadian-made textiles and apparel over five or six years. To qualify for tariff benefits, blue jeans, blouses and other apparel will have to be made from yarn spun in North America, and fabric would have to be made from North American fibres. Canada and Mexico will be allowed to ship a specified amount of clothing and textiles made from foreign materials to the US each year; the quota will rise slightly over five years.

The Nafta – building on much of the work done in the Uruguay Round of the General Agreement on Tariffs and Trade – has a high level of obligations on intellectual property rights. Mexico agreed to protect foreign-registered patents for pharmaceutical and other products for at least 20 years. This has been met with some grumbling among elderly Americans, many of whom send couriers to purchase large quantities of cheap medicine in Mexico.

Copyright protection for films, records and television will meet international standards. One remaining problem is the illegal pirating of satellite television broadcasts by Mexican cable systems. However, licensing contracts with the systems have remedied the problem for the time being.

On investment, Mexico has agreed to liberalise many of its restrictions and to treat US and Canadian companies equal in most areas. Mexican liberalism has spurred a 10 per cent rise in foreign investment this year. During the first two months of 1993, more than $1.68bn was invested in Mexican manufacturing, services, retail, transportation, communications and stocks. The US accounted for more than half of the total investment, followed by the UK, France, Spain and Canada.

Nancy Dunne

LONDON STOCK EXCHANGE

Bright close to a lacklustre session

By Terry Byland, UK Stock Market Editor

A DULL trading session was suddenly enlivened just before the close when a rally in early trading on Wall Street proved sufficient to lift the UK stock market from weakness to a modest gain. But equity strategists remained cautious, aware that the market is poised for the pricing this morning of the £1.3bn rights issue of Zeneca shares which opens the road to the demerger from ICI.

Traders hesitated to applaud the late upswing, which left the FT-SE 100 Index with a gain on the day of 6.3 at 2,836.1. However, there were hints from the stock index futures market that a large buyer had shown up and was expected to continue his operations today. More sceptical sources noted that the UK stock market may be merely confirming its recovery from the lower end of an established trading range.

A senior figure at one of the London stockbroker firms commented: "The UK stock market is still dominated at present by trends in the derivatives markets."

For most of the session, share prices were on the downside in fairly unexciting trading. Losses were extended in the afternoon when the Footsie showed a fall of 5.1 at 2,832.6 after New York had opened easier. However, by the time London closed for the day the Dow Average was about 4 points ahead.

The tone of the session remained much as it has been for the past week. A small – £22.5m – rights issue from Avon Rubber had little direct effect, although it reminded the market of its fears of fund-raising in both equities and government bonds and focused attention even more on today's news on the Zeneca issue.

Also disappointing London was New York's failure overnight to live up to the high promise displayed as the UK market closed on the previous evening. Also, firmness in sterling appeared to imply reduced expectations of a base rate cut.

On the corporate scene, insurance issues brightened after General Accident reported more than satisfactory first-quarter trading figures. But the overall market was slow to respond to Gen Acc's news, or to a handful of minor corporate deals; Inchcape paid more than £40m for a 15.3 per cent stake in Gestetner, Alco bid £67.4m for Erskine House and Carclo paid £57m for Arthur Lee.

Trading volume was very unimpressive for most of the day, although business jumped smartly when the market moved higher at the close. The day's Seaq total of 676.9m shares compared with 587.5m on Monday when retail, or customer, business only just scraped above the £1bn mark now regarded as the minimum acceptable daily total.

Some strategists regarded yesterday's performance, and especially the late recovery, as confirmation that the market has established a trading range and is now rallying from the low end, which is put at around the Footsie 2,770 mark.

At Panmure Gordon, Mr Robin Aspinall sees the current rally as taking the index no further than 2,860. While political pressures continue to pile on the UK government of Mr John Major, economic news this week has been more favourable.

The fall of 1 per cent in producer input prices last month suggests that "much of the devaluation effect" has now fed through into costs, according to Nikko Securities.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group†	13,000	67½	-1½
Abbey National†	3,500	408	-1
Albert Fisher	877	65	-2
Allied-Lyons†	1,800	560	-1
Amstrad	1,800	33	+½
Anglian Water†	607	494	
Argos	275	284½	-4½
Argyll Group†	3,400	333	+2
Arjo Wiggins†	1,500	185	-2
Ass. Brit. Foods†	179	480	-1
Ass. Brit. Ports	353	415	+6
BAA†	1,400	750	+5
[illegible]	[illegible]	[illegible]	[illegible]
British Steel†	7,600	94½	-½
Burmah Castrol†	944	737	
Burton	12,000	61½	-1½
Cable & Wire.†	1,400	701	
Cadbury Schweppes†	2,200	449	+6
Calor Group	35	246	-1
Carlton Comms.†	256	729	-4
Coats Viyella†	558	233	-1
Comm. Union†	984	581	+6
Cookson	1,200	202	-1
Courtaulds†	1,300	507	-1
Dalgety	137	437	-1
De La Rue†	357	677	-7
Dixons	3,000	218	+5
Eastern Elect.	472	461	-1
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates		
*First Dealings:		
Apr 19	May 10	May 24
Option Declarations:		
May 6	May 20	Jun 3
Last Dealings:		
May 7	May 21	Jun 4
Account Day:		
May 17	Jun 1	Jun 14

*New time dealings may take place from 8.30am two business days earlier.

Doubts on Sainsbury DIY talk

RETAIL specialists were mostly sceptical of rumours in the market yesterday that J. Sainsbury was considering buying the Do It All interests of W.H. Smith.

Sainsbury already owns the profitable Homebase DIY business and is known to have been looking for well-placed sites. One stores analyst said he believed that Sainsbury may have approached Smith to purchase selected stores, but that talk of a full-scale offer was probably wide of the mark.

Smith owns the Do It All chain in a joint venture with Boots. The business has suffered as the recession has squeezed margins in the highly competitive sector and analysts had pencilled in losses of around £28m for this year. While Smith had been considered by the market as the more reluctant partner in the venture, many specialists had been predicting a buyout by Boots as the most likely development.

It was also pointed out that the drugs group has first refusal on any deal by Smith and was not likely to want to swap one partner for another.

Nor, it was argued, was it in keeping with Sainsbury's strategy to buy a 50 per cent stake in a rival business.

Finally, a Sainsbury offer for a stake in a heavily indebted group such as Do It All would be seen as bad for its own shares: in fact, they rose yesterday, closing 13 ahead at 481p in 4.1m turnover. NatWest Markets, Henderson Crosthwaite and Panmure Gordon were recommending the stock ahead of today's full year results. Boots held at 439p and W.H. Smith shed 7 to 458p.

Pilkington hit

Shares in Pilkington, the world's leading glassmaker, were hit in late trading by a flurry of rumours concerning its US arm.

The rumours surrounding Libbey-Owens-Ford, the 100-year-old Ohio glassmaker, ranged from insider trading to FBI involvement. After the UK market closed, Pilkington confirmed that the chief executive and two vice-presidents of Libbey-Owens had been suspended pending an internal inquiry. The company said there was no "evidence of major financial loss", but that there were allegations that the men had "failed to follow corporate procedure".

One analyst commented: "The market will not be particularly happy until it knows what the reasons are behind these executives being removed. Until then, people will guess and guess the worst."

Pilkington, which owns 80 per cent of Libbey, saw its shares slide 5 to 128p.

Unigate surprise

The surprise decision by Unigate to postpone the flotation of its US restaurant business, which was announced only last month, hit sentiment in the shares. The company had hoped to raise up to $250m through the float, valuing each share at between £15 and £17. However, market sources suggested that although the pre-placing had taken place at the upper range price, US institutional investors had baulked at this and offered only $14 a share. Unigate blamed poor weather conditions affecting sales for the postponement. Food manufacturing analysts said another factor had been that a number of poorly received small flotations in recent months in the US had soured investor sentiment.

While Unigate said it intended to "complete an IPO of the business at an appropriate time", rumours in the market suggested Unigate might opt for a trade sale, with PepsiCo tipped as a likely candidate. Unigate fell 12 to 353p. NatWest Securities moved the stock from long-term outperform to neutral.

Shell wanted

News of a potential disposal helped Shell Transport ahead of first-quarter figures tomorrow. Analysts were enthusiastic at the announcement that the group was hoping to sell most of its metals assets to Gencor, of South Africa, and the shares ticked up sharply shortly before the close to record a net gain of 10 at 581p.

Hoare Govett was a keen buyer, arguing that, as with BP the first-quarter figures would beat most expectations. The house added that the company was well exposed to cyclical recovery through its chemicals side and should receive benefits from currency shifts.

Meanwhile, Société Générale Strauss Turnbull said the sale could "raise in excess of $1bn" and prompt a turnround of about £140m in taxed profits. Analyst Mr John Toalster said: "This is a major development and shows the company is being more responsive to shareholders' needs."

ICI shed 21 to 1263p as the UK view of today's rights issue pricing for ICI's biosciences arm, Zeneca, took precedence over the more optimistic US stance. ICI's advisers were said to be testing a range of 550p to 650p for Zeneca's £1.3bn cash call.

Glaxo Holdings rebounded from a small early loss to close 21 better at 634p in a flat market following a meeting between pharmaceutical analysts and the company's new management. NatWest Securities were strong buyers. Fisons shares were 2 lower at 172p following a downgrade by SGST which decided its view of the group's scientific instruments business was too optimistic. The house cut its 1993 profits forecast by £10m to £130m and its 1994 estimate to £150m from £170m.

Insurer General Accident rose 18 to 591p after the company announced first quarter profits well above most analysts' expectations. The company made £41.9m against a loss of £29m a year earlier.

Among engineering stocks, the late news that VSEL had won the contract to build the Royal Navy's new LPH helicopter carrier took the market by surprise. It led to a hectic bout of trading causing a backwardation – a situation in which the bid and the offer price are temporarily reversed. By the close the shares had jumped 35 to 725p.

Monday's suspension of dealings in Arthur Lee and Carclo pending an announcement was lifted after confirmation that the latter was to make an agreed bid for the former. Shares in Lee jumped 16 to 158p, while Carclo gave up 13 to 210p, on the news. William Cook moved in sympathy with Lee, up 12 at 174p.

A £22.5m rights issue from motor components and tyre manufacturer Avon Rubber caused the shares to fall 31 to 501p as it unveiled a 22.2 per cent increase in interim profits. GKN shed 5 to 452p, with SG Warburg said to have downgraded profit expectations, and NatWest Securities negative on the motor sector as a whole.

The fading bid talk around United Biscuits turned investor attentions back to more fundamental considerations in the sector and Cadbury Schweppes gained 6 to 449p, and Tate & Lyle added 6 to 388p. UB lost 9 to 425p.

A big buyer in Iceland Frozen Food helped the shares climb 15 to 683p.

Profit-taking continued in Ratners, the shares declining 5 to 35p with 18m traded.

RMC Group jumped 15 to 700p with SGSC positive and Cazenove, its joint-broker, said to have upgraded.

Shares in office equipment distributor Erskine House jumped 54 to 89p, after the announcement of an agreed bid from Alco Standard Corporation of the US for £67.4m. Eurocopy firmed 4 in sympathy.

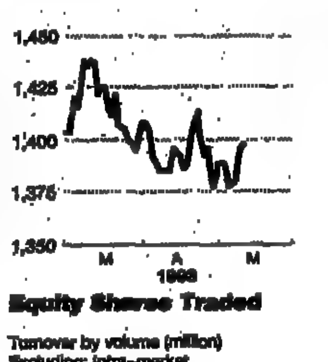
The recent market speculation that Inchcape had its eye on Gestetner, the office and photographic equipment distributor, was confirmed by news that it was taking a 15.3 per cent stake in Gestetner. Gestetner's ordinary shares closed 7 ahead at 130p, while those of Inchcape fell 8 to 583p on the news.

Media conglomerate Pearson fell 7 to 436p as Hoare Govett reiterated its view that the stock was fully valued and shareholders should switch into Reed International, up 9 at 658p.

MARKET REPORTERS: Christopher Price, Peter John, Joel Kibazo.

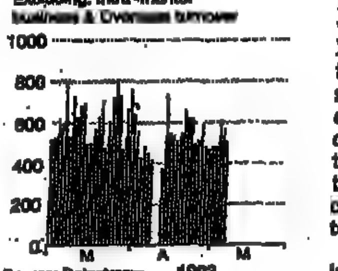
■ Other statistics, Page 22

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



Source: Datastream

FINANCIAL TIMES EQUITY INDICES

	May 11	May 10	May 7	May 6	May 5	Year ago	*High	*Low
Ordinary share	2215.2	2217.8	2189.4	2188.5	2202.8	2137.8	2299.5	2124.7
Ord. div. yield	4.19	4.18	4.24	4.23	4.20	4.27	4.52	4.07
Earning yld % full	6.31	6.30	6.38	6.37	6.34	6.06	6.38	5.79
P/E ratio net	19.83	19.66	19.40	19.44	19.54	20.72	22.04	19.40
P/E ratio nil	18.35	18.38	18.14	18.17	18.26	19.27	20.30	18.14
Gold Mines	150.7	153.8	151.0	149.8	148.3	110.1	153.8	80.0

*for 1993. Ordinary share index since compilation: high 2299.5 10/3/93 - low 49.4 26/6/40
Gold Mines index since compilation high: 734.7 15/2/83- low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2213.5	2213.8	2213.6	2215.4	2214.3	2215.1	2216.5	2212.7	2213.6	2218.4	2208.8

Volume	May 11	May 10	May 7	May 6	May 5	Year ago
SEAQ Bargains	28,290	29,940	33,007	28,151	28,758	32,452
Equity Turnover(£m)†	-	1083.3	1194.0	1374.4	1121.9	1239.0
Equity Bargains†	-	33,013	37,140	32,175	30,787	40,775
Shares traded (mil)†	-	504.7	558.8	618.1	488.0	550.3

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p at all other times.

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (164).
CANADIANS (2) Amer. Barrick Res., Echo Bay Mines, BANKS (3) Mitsui Tst. & Bnkg., Royal Bk. of Scot., Westpac, BREWERS (3) Greenalls, Do. 5.65pc Pf., Seagram, BLDG MATLS (3) CRH, Hepworth, Ibstock Johnsen Wrnts., Meyer, Newman-Tonks, RMC, Rugby, Unigroup, BUSINESS SERVS (3) Cornec, Gardiner, Hutchison Whampoa, CHEMS (1) BTP, CONGLOMERATES (5) Cannon St. Invs., Goode Durrant, Lonrho, Resco, Wassall, CONTG & CONSTRCN (4) [illegible], Persimmon, Prowting, ELECTRICALS (4) Arlen, Delta, Emess, Motorola, ELECTRONICS (3) INSTEM, P-E Intl., Sanderson Electr., ENG GEN (6) Adwest, Aerospace Eng., Clyde Blowers, Hall, Howden, VSEL Consrtm., FOOD MANUF (1) Finlay (J), FOOD RETAILING (1) Greggs, HOTELS & LEIS (1) Fairline Boats, INSCE COMPOSITE (1) FAI, INV TRUSTS (37) Aberforth Smlr. Co's., Avesco, Baillie Gifford Shin Nippon, City of Oxford Zero Pf., Derby, Drayton Eng. & Intl., EFM Japan Wrnts., Fidelity Japan OTC & Reg. Fd., Do. Wrnts., Finsbury Smlr. Co's., For. & Col. Pacific Wrnts., Gartmore Emerging Pacific, JF Fledgeling Japan, Do. Wrnts., JF Pacific Wrnt., Do. Wrnts., Martin Currie Pacific, Do. Wrnts., Mediterranean Fd., RIT Cap., Do. 2¼pc Cv. 2000, Schroder Japanese Wrt. Fd., Do. Wrnts., Scot. Asian, Do. Wrnts., Second Cons., Smaller Co's., Do. Wrnts., Templeton Emerging Mkts. Wrnts., Throgmorton 1000 Smlr. Co's., Turkey, MEDIA (9) Bristol Eve. Post, Holmes Marchant, Johnston Press, LWT Cv. Pf., Metro Radio, Sterling Pub., Trinity Intl., Walmoughs, MTL & MTL FORMING (3) Cook, Lee, Tinsley, MISC (10) Abbeycrest, Airsprung Furn., Erskine Hse., Do. 7½pc Pf., Eurocopy, Fairway, Headlam, Le Creuset, Portmeirion Potts., Spandex, MOTORS (1) Henlys, OIL & GAS (8) Aminex, Aran Energy, Arcon, Cairn Energy, Command Petm., Crusader, Gt. Western Res., Gulfstream Res. Canada, Hardy, OTHER FINCL (10) Cater Allen, Cattle's, First Natl. Fin. 7pc Pf., Garrard & Natl., Intrum Justitia, King & Shaxson, Mitsubishi, Swiss Pacific A, Trio, Union Discount, OTHER INDLS (1) Norcros, PACKG, PAPER & PRINTG (3) API, Bagden, Brit. Polythene, PROP (4) Bradford, Land Sec., Wood (J.D.), YRM, STORES (3) Courts, Menzies, Oliver, TEXTS (3) Lamont, Leeds, Readicut, TRANSPORT (5) All Nippon Airways, Assoc. Brit. Ports, Brit. Airways 9¾pc Cv., Dawsongroup, Iol Steam, WATER (1) Mid Kent, PLANTATIONS (1) Highlands, MINES (15) Anglo Am. Coal, Anglovaal, Delta, Emperor, Europa Minerals, Free State Dev., Gwalia Cons., Julia, Northam Plat., Portman, PosGold, Precious Metals Aust., Resolute Res., Sons Gwalia, St. Barbara.
NEW LOWS (17).
BLDG MATLS (1) St. Gobain, BUSINESS SERVS (2) RCO, Rentokil, CHEMS (1) BOC, ELECTRONICS (2) Forward Tech., Multitone, ENG GEN (1) ES, FOOD MANUF (1) Cadbury Schweppes, INV TRUSTS (1) Exmoor Dual Inc., MISC (1) Shanks & McEwan, OTHER FINCL (1) Aitken Hume, OTHER INDLS (2) Scapa, Staveley, TEXTS (2) Courtaulds, Lyles (S), TRANSPORT (1) Transport Dev., SOUTH AFRICANS (1) SA Brews.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2836.1 +6.3	3131.3 +5.7	1397.44 +3.02

	May 11	Day's change %	May 10	May 7	May 6	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2836.1	+0.2	2829.8	2793.7	2788.3	2722.4	6.46	3.99	19.56	41.01
FT-SE Mid 250	3131.3	+0.2	3125.6	3109.5	3114.7	2806.3	6.43	3.72	19.56	34.52
FT-SE-A 350	1411.4	+0.2	1408.4	1392.9	1390.5	1335.2	6.45	3.93	19.57	19.33
FT-SE SmallCap	1592.28	+0.3	1588.20	1585.31	1587.87	-	4.57	3.58	31.25	17.82
FT-SE SmallCap ex Inv Trusts	1604.25	+0.3	1599.51	1596.50	1598.74	-	5.05	3.78	29.17	18.63
FT-A ALL-SHARE	1397.44	+0.2	1394.42	1379.45	1377.63	1319.48	6.33	3.90	20.03	18.92
1 CAPITAL GOODS(212)	978.44	+0.1	975.22	968.69	967.62	923.23	5.44	3.94	23.98	14.35
2 Building Materials(27)	1079.65	+0.3	1079.25	1064.99	1063.36	1113.17	4.76	4.49	28.82	18.33
3 Contracting, Construction(29)	970.97	+0.4	966.86	964.07	967.90	1085.29	2.01	3.41	80.00†	11.57
4 Electricals(15)	2831.32	+0.7	2810.57	2792.54	2775.41	2649.02	5.28	4.77	24.09	65.13
5 Electronics(37)	2845.33	—	2848.06	2822.52	2819.15	2089.20	5.99	3.02	21.11	19.74
6 Engineering-Aerospace(7)	370.04	-0.6	372.19	372.03	372.35	396.85	5.49	3.99	24.17	4.81
7 Engineering-General(51)	565.55	+0.5	562.60	560.31	566.30	558.89	6.80	3.73	18.85	7.09
8 Metals & Metal Forming(11)	413.73	-0.1	414.13	413.13	404.61	373.86	4.18	2.97	34.38	0.88
9 Motors(16)	401.07	-0.2	402.02	402.35	403.18	391.61	5.06	5.50	28.26	9.52
10 Other Industrials(18)	2015.65	—	2015.49	1998.40	2000.66	1884.10	5.89	4.07	20.84	37.38
21 CONSUMER GROUP(230)	1682.13	+0.2	1658.66	1637.70	1637.39	1750.67	6.90	3.39	17.94	18.71
22 Brewers and Distillers(25)	1947.70	-0.2	1952.03	1939.55	1924.09	2253.42	8.27	3.71	14.79	20.05
25 Food Manufacturing(22)	1349.69	-0.1	1350.91	1340.87	1343.69	1322.56	7.45	3.75	16.22	22.09
26 Food Retailing(18)	2955.90	+0.6	2949.47	2907.85	2891.90	2886.67	8.65	3.38	14.99	19.55
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Red.
Five to Fifteen Years						
Treas 7¼pc 1998‡‡	100⅛	-⅛	100¼	99⅞	7.21	7.10
Treas 6¾pc 1995-98‡‡	99⅝	-⅛	101	97⅞	6.84	7.07
15½pc '98‡‡	134⅛	-⅛	136⅝	133⅞	11.58	7.65
Exch 12pc 1998	118½xd	-⅛	122⅛	118⅝	10.18	7.74
Treas 9½pc 1999‡‡	108⅝	-⅛	112⅛	108⅜	8.73	7.87
Exch 12¼pc 1999	120⅞	-⅛	124⅝	120⅛	10.17	7.84
Treas 10½pc 1999	113⅞xd	-⅛	117⅝	112⅝	9.27	7.70
Conversion 10¼pc 1999	112⅝xd	-⅛	117⅛	112⅛	9.09	7.73
9pc 2000‡‡	106⅞	-⅛	110⅛	106	8.42	7.57
Treas 13pc 2000	126¼	-⅛	131	125½	10.30	8.10
10pc 2001	111⅛	-⅛	115⅛	109⅝	8.98	8.01
14pc '98-1	125⅝xd	-⅛	129½	125⅛	11.16	7.78
9¾pc 2002	110¼	-⅛	114⅛	109⅛	8.84	8.15
8pc 2003‡‡	99⅛xd	-⅛	103⅛	97⅛	8.06	8.08
10pc 2003	111⅛	-⅛	116⅛	109⅝	8.98	8.27

Continued on next page

EQUITY FUTURES AND OPTIONS TRADING

A LATE spate of active buying on the back of an improved Wall Street was the only feature in an otherwise dull day in the derivatives market, writes Joel Kibazo.

In futures, the June contract on the FT-SE 100 Index opened strongly at 2,843, a 15-point premium to the underlying cash market.

However, this early strength soon fizzled out, leaving the contract to drift lower. It traded in a 10-point range between 2,830 and 2,840 for the next few hours.

Further selling during the afternoon saw June fall below the morning's trading range and it reached the day's low of 2,823 at around 3.15pm.

It was the buying spree that followed the recovery of Wall Street that brought about an upturn in the June contract and it ended at 2,842, up 1 from its previous close and around 3 above its fair value premium to cash of about 5. Turnover was 8,063 lots, although dealers suggested that a big buyer today may boost turnover.

The traded options saw reduced volume of 26,243 contracts with the index options once again the most active. Some 8,525 lots were dealt in the FT-SE 100 option and 4,818 in the Euro FT-SE. Glaxo was the busiest stock option with a total of 1,409 trades, followed by BP at 1,083. British Airways was also active.

Dealings will begin today in an additional seven stock options.

LONDON SHARE SERVICE

AMERICANS

Notes	Price $	+ or −	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs	17¾xd	—	20¾	15¹³⁄₁₆	14,865	2.4
Allegheny & W. ♥	494p	—	571p	399p	259.7	3.8
Amdahl	341p	+9	591p	302¼p	382.9	1.8
Amer Cyanamid	33⅝	−½	38⅝	31¼	3,031	3.1
Amer Express	18xd	+⅛	18½	14⅞	8,604	3.5
Amer T & T	38⅞xd	+⅜	40⅞	33½	48,291	2.3
Ameritech	48½	+¼	52¾	46	21,235	4.8
BankAmerica	30¼xd	+⅛	38¼	27¹³⁄₁₆	10,501	2.9
Bankers NY	45¾xd	+1	51¾	42⅝	3,672	4.3
Bell Atlantic	34¼	+¼	39⅛	32¼	14,827	4.9
BellSouth	33⅞	+¹¹⁄₁₆	39⅞	32⅞	16,734	5.2
Bethlehem Steel ♥	12½xd	−⅞	13¾	10	1,131	-
Bowater	1385pxd	−15	1682p	1335p	501.9	1.8
CPC	28⅞xd	—	34⅝	26	4,373	2.8
Cadiz Land Inc ♥	71½p	+1½	116p	53p	—	-
California Engy	1358p	—	1479p	1086p	247.2	-
Chase Manhattan	19¾xd	+⅞	24½	17⅞	3,014	4.0
Chrysler	27½xd	+¼	28⅞	21¼	8,053	1.4
Citicorp	17¹³⁄₁₆xd	+⅜	20⅞	13⅞	6,657	-
Colgate-Palm	39¾xd	+⅞	45⅜	35¼	6,276	2.0
Cont'l Bank	1533p	+10	1877p	1278p	1,549	2.5
Dana	32¼xd	+⅞	34⅞	29¹³⁄₁₆	1,489	3.1
Data General	624p	+9	951p	593p	172.2	-
Decora Inds. ♥	126p	—	148p	109p	—	-
Dun & Brad	38⅝	+¼	42⅛	37⅞	6,884	4.0
Eaton	57⅞	—	58⅝	50⅞	1,987	2.4
Echlin	15½xd	+¼	18⅞	15¼	883.4	2.8
FPL	24¾xd	+⅞	27⅞	23¼	4,496	6.3
Ford Motor	35⅞xd	+⅛	38¾	28¾	17,511	1.8
Gen Elect	61xd	+¹⁵⁄₁₆	62⅞	53⅞	52,098	2.6
General Host ♥	583p	—	723p	566p	—	3.9
Gillette	34⅛xd	+⅞	42⅝	31½	7,495	1.5
Hasbro	20⅞	—	20⅞	20⅞	1,819	0.7
Honeywell	22¾xd	+¼	24⅝	20½	3,083	2.5
Houston Inds.	30	−¼	33¾	29¼	3,885	6.3
Ingersoll-Rand	21¾xd	+¼	25	19⅛	2,272	2.0
Lockheed	41⅝	+⅛	42⅝	35⅛	2,534	3.2
Loews h	2011p	+3	2339p	1573p	1,487	0.9
Merrill Lynch	48¼xd	+1⅞	50¹³⁄₁₆	37	4,752	1.6
Morgan (JP)	43⅞xd	+⅛	48½	38¾	8,323	3.5
Morris (Philip)	34⅛xd	+1½	52⅝	28¹³⁄₁₆	31,389	3.2
NYNEX	54⅛	+½	64⅛	53	11,231	5.4
Pall	12⅝xd	+⅛	16	11	1,482	1.6
Pennzoil	40½xd	−⅞	40⅞	31¹³⁄₁₆	1,660	4.7
Quaker Oats	44⅞xd	+⅞	48⅛	39⅞	3,213	2.7
Rockwell	21¾xd	+⅛	22⅞	18¾	4,874	3.0
Rep NY	31⅛xd	−⅛	37⅞	29¾	1,629	2.2
Sears, Roebuck	35xd	+⅛	37⅞	28⅞	12,885	2.9
Sthwestern Bell	49⅛	+½	52½	46⅛	14,818	3.8
Sun Co	15¾xd	—	21⅛	14¾	1,874	7.2
Tenneco	31⅞xd	+⅞	33¼	25½	6,306	3.2
Texaco	40½xd	+⅛	44¼	37½	10,479	5.0
Time Warner h	21¾xd	+⅞	25⅞	18⅞	8,090	0.8
Unilab ♥	422p	+9	499p	358p	182.1	-
US West	27¼	−⅛	30⅛	24¾	11,288	4.3
Varity	2084p	−30	2268p	1686p	638.2	-
Waste Manage	20⅝xd	+⅛	27⅞	19¾	10,086	1.6
Whirlpool	3624pxd	+101	3720p	2824p	2,533	2.1
Woolworth ♥	18⅛	—	21⅞	18⅞	2,807	3.7

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

Authorised by the Inland Revenue

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1993 high	low	Yld Gr's	NAV	Dis or Pm(-)
Scottish Inv		192		201	183	3.0	232.9	17.6
Warrants		44	+1	45	38	–	–	–
Scot Mortgage		189½		201	178	2.7	219.1	13.5
Scot National Inc		90		95½	83	10.6	–	–
Cap		22	+½	26	16	–	58.5	62.8
Stepped Pf		152¼		165¼	150¾	5.9	–	–
Zero Div Pf		208		212	207	–	–	–
Warrants		3½		6	3	–	–	–
Scot Value		79½		79¾	71	2.8	75.7	-4.7
Sec Alliance		1420		1583	1390	3.2	1598.8	11.2
Second Consold		120	+2	120	88	–	183.2	35.3
Second Market		327		328	256	0.8	353.6	7.7
Sec Tst Scot		80xd		84½	74½	5.1	83.7	4.7
Select Assets		121		130	109½	1.2	167.5	27.8
Eq Ind Sert		130						

MERCHANT BANKS

	Notes	Price	+ or -	1993 high
Barings 8pc Cm 2nd Prf		99½xd	+1	100½
9¼pc Non-Cum Pf		118xd	-½	127½
Close Bros		338	+4	345
Hambros		342	+1	356
7½pc Cv Pf		141		148½
Joseph (L)		358		363
Kleinwort Benson		389	+3	403
Rea Bros		42	+1	47
Schroders		943xc	+13	987½
N/V		790xc	+17½	812½
Singer & Fried		64		67
Warburg (SG)		664	-3	674
8pc Cv Pf		224	+1½	227
Wintrust		205		216

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

	Notes	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
Glencar Expl		12		12	8	2.22	–
Greenwich Res		16		16½	5	11.6	–
Harmonie Gold C$							1.8
Ivernia West		53	+4	67	31	28.7	–
Kenmare		11½			8	11.0	–
Malinga Res					14	1.68	–
Nevan Res		37	-1	39	25	4.66	–
5pc Ln Notes		30¼		34	25	5.16	–
Oryx Gold		62½		71	47	–	–
Ovoca Res		3½		3½	3¼	0.24	–
RTZ		612	-3	709	608½	6,144	4.2
Viscaya		5¼		5¼	2¾	3.08	–

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (¥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth						0202 295422
Cash	1	49.82	49.82xd	50.12	+0.01	6.6
Capital Primaco	5½	55.47	55.82	59.34	+0.15	7.9
Extra	5½	51.64	52.40	55.08	+0.22	4.0
European Growth	5½	56.71	59.09	59.52	-0.28	3.2
Income	5½	51.26	51.74xd	55.18	+0.21	5.8
Intl Growth	5½	77.45	76.00xd	83.20	+0.85	3.0
Managed	5½	69.61	69.87	74.30	+0.25	3.6
UK Growth	5½	58.37	59.00	59.75	+0.37	4.8
Standard Life Tst Mgmt Ltd (0730)H						
3 George St, Edinburgh EH2 2XZ						0800 393777
Managed Acc	5¼	42.87	42.87	45.55	+0.7	1.78
UK Equity Gth Acc	5¼	56.71	57.73	61.34	+0.7	1.63
UK Eq High Inc Inc	5¼	34.18	34.18xd	36.32	+0.3	3.86
UK Eq High Inc Acc	5¼	40.59	40.59	43.13	+0.4	3.86
UK Equity Gen Acc	5¼	52.92	53.94	57.23	+0.7	2.31
UK Equity Gen Inc	5¼	40.02	40.74xd	43.29	+0.5	2.31
UK Larger Cos Acc	F 7½	381.4	389.3	397.5	+4.7	3.89
UK Larger Cos Inc	F 7½	277.6	281.3xd	305.3	+3.6	3.89
Gilt & Fxd Int Inc	5¼	29.62	29.58xd	31.30		8.80
O'seas Lrg Cos Acc	F 7½	265.6	270.1	293.1	+8.1	1.51
Nth American Acc	5¼	41.14	41.40	43.98	+1.1	0.83
Far East Acc	5¼	54.09	54.08	57.48	+1.0	0.53
European Acc	5¼	40.01	40.01	42.02	+0.5	1.15
State Street Unit Trust Mngmt Ltd (1400)F						
20 Birchin Lane, London EC3V 9AD						071-626 1500
Global A	5¼	[illegible]	3.615	3.840	---	1.12
US Equities (x)	5¼	52.980	2.080	2.207	---	0.79
Far East Equities (x)	5¼	Y247.4	248.5	264.1	---	-
Japan Equities (x)	5¼	Y240.8	242.7	257.8	---	-
FT Europe (x)	5¼	109.1	109.3	116.0	---	2.18
FT Nth American (x)	5¼	51.696	1.698	1.801	---	1.06
FT Japan (x)	5¼	Y243.1	243.8	258.7	---	-
FT Asia Ex Japan (x)	5¼	51.613	1.828	1.942	---	1.75
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh						031-226 3271
American ♥	5	327.0	327.0	348.2	+5.4	0.32
(Accum Units) ♥	5	365.5	365.5	410.5	+6.3	0.32
British	5	906.8	906.8	961.5	+2.5	4.41
(Accum Units)	5	1593.7	1593.1	1688.5	+4.4	4.41
Emerging Market	5	99.26	100.0xd	106.5	+0.8	0.39
European	5	384.5	384.5	408.5	-1.9	1.45
(Accum Units)	5	422.2	422.2	448.6	-2.1	1.45

	Bid Price	Offer Price	+ or -	Yield Gross
Funds in Court*				
Capital Apr 1	540.90	554.12	---	3.73
Gross Apr 1	207.20	209.87	---	10.19
High Yield Apr 1	333.75	338.99	---	7.73
* Restricted to monies under Court control				
Govett (John) Unit Mngmt Ltd				
Managed Exempt	105.72	109.83	+0.75	3.30
Henderson Unit Trust Management Ltd				
Pensions Mngd	80.69	81.05xd	+0.30	2.07
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P'Folio (ICD-1)	£1.4800	1.5350	---	-
Mngd Pens (Acc)	£0.9824	0.9078	---	-
UK Core	£1.0030	1.0210	---	-
Lazard Brothers & Co. Ltd				
Property May 4	£1900.0	2100.0	---	7.00
Inc Exm Prp Feb 3	£1200.0	1400.0	---	8.90
Lazard Investors Ltd ‡				
Exempt Funds				
Small Co's May 5	£4878.5	5113.7	---	2.76
European May 5	£867.6	884.7	---	1.89
American May 5	£418.3	421.9	---	1.42
Japan May 5	£368.3	375.8	---	0.52
Pacific May 5	£180.7	184.5	---	0.94
Midland Gilt Feb 25	£130.10	141.90	---	2.89
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AD				071-588 1815
Property Apr 30	177.10	180.70	---	9.06
Equity Apr 30	992.10	1003.00	---	3.33
* Available only to Local Authorities				
M & G Securities Ltd				
Charibond (z)		108.39xd	+0.1	9.95
(Accum Units)		743.63	+0.8	8.95
NAACP (z)		44.23xd	---	8.05
Merlin Jupiter Unit Trust Managers Ltd				
Merlin Jupiter Exempt Trust				
UK Equity	£10.76	10.92	---	-

INSURANCES

OTHER UK UNIT TRUSTS

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Provident Mutual Life Assce. Assn. - Contd.

Prudential Assurance Co

Prudential Corporate Pension Funds

Prudential Individual Life Funds

Prudential Individual Pension Funds

Reliance Mutual

J Rothschild Assurance PLC

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Amicable - Contd.

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group - Contd.

Sun Life Unit Assurance Ltd

Sun Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

CMI Insurance Co Ltd

Century Life International Ltd

Eagle Star Intl Life

Equitable Life (International)

Eurolife Assurance Group

Finsure International

Hansard International Ltd

Isle of Man Assurance Ltd

Lombard International Group

PanEuroLife societe anonyme

Prolific International Life Assurance

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

Target International Group

MANAGEMENT SERVICES

Capital Trust Financial Management

Chase de Vere PLC

ECU Terminvest PLC

Fairmount Financial Services Ltd

Foster & Braithwaite Ltd

Horsbrander Financial Services (Pty) Ltd

IFG Capital Management PLC

Independent Financial Group PLC

Johnson Fry Asset Managers PLC

Knight Williams & Company Ltd

Mercury & Dowle Invest Mngt Plc

Northern Rings & Partners

Pendleton May Financial Services Ltd

Roxborough Financial Management Ltd

Charles Stanley & Co Ltd

United Financial Corporation Ltd

J. D. Ward Financial Services Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Lloyd George Management

Newport Investment Management

Orion Fund Limited

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

Butterfield Fund Mngrs (Guernsey) Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Guinness Flight Fd Mngrs - Contd.

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

M & G (Guernsey) Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Offshore Fd Mgrs Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

Dentrust Management (Guernsey) Ltd

Hambros Fund Managers (CI) Ltd

Henderson Admin. (Guernsey)

Investment Portfolio Svcs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (CI) Ltd

Merrill Lynch Guernsey

Nikko Capital Mngt (Europe) Ltd

Daiwa International (Guernsey) Ltd

Rothschild Asset Mngmt (CI) Ltd

Saudi International (Guernsey) Ltd

U.S. Treasury Securities Fund Ltd

Rudolf Wolff Capital Management Ltd

Yamaichi Capital Mangmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

Coutts & Co Fund Managers Limited

Federated International Funds Plc

GAM Fund Management Ltd

GT Asset Management (Ireland) Ltd

Morgan Grenfell Investment Funds Ltd

Prolific International Fund Plc

Ringer & Friedlander Inv Funds Ltd

Swiss Life Investment Fund

IRELAND (REGULATED)(**)

BT Fund Managers (Ireland) Ltd

Bank of Ireland Unit Managers Ltd

Baring International Fd Mngrs (Ireland) Ltd

Baring Mutual Fund Mngrs (Ireland) Ltd

Chemical Fund Administrators Ltd

GT Asset Management (Ireland) Ltd

Genesis Portfolio Managers Limited

Hambros Fund Managers (Ireland) Ltd

Kleinwort Benson Capital Mngt (Ireland) Ltd

Morgan Grenfell Fund Mngrs (Ireland) Ltd

Morgan Grenfell Profunds Plc

Paine Webber Offshore Funds Plc

J. Rothschild International Assce plc

Samara Investment (Ireland) Plc

Ulster Bank Investment Services

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mgrs (1800)F

Asset Global Funds Ltd

CMI Fund Managers (IoM) Ltd

Gartmore Fund Managers (IoM)

Leopold Joseph Fund Mgrs (IoM) Ltd

Mercury Fund Managers (IoM) Ltd

Sun Life International (IoM) Ltd

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

ATC Fund Management (IoC) Ltd

AXA Equity & Law Intl Fund Mgrs

Appleton Financial Advisors Ltd

CMI Fund Mgrs (IOM)

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Gartmore Fund Managers (IoM) Ltd

John Govett Management (IoM) Ltd

Eagle Star International

SG Managers (IoM) Ltd

S & H Fund Managers (IoM) Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Capital House Fund Mgrs (CI) Ltd

Gartmore Fund Managers (CI) Ltd

John Govett (Channel Islands) Ltd

Hill Samuel Fund Mgrs (Jsy) Ltd

INVESCO MIM International (Jersey) Ltd

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

Prudential Fund Managers (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd

Standard Bank Fund Mngt (Jersey) Ltd

TSB Trust Funds (CI)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$9.549	10.051	+0.072	0.0
Hong Kong	$28.331	29.822	+0.443	0.4
Indonesia	$9.070	9.534	-0.090	0.0
Korea	$10.797	11.365	-0.018	0.0
Malaysia	$17.742	18.676	-0.188	0.0
Philippines	$17.285	18.149	-0.958	0.0
Singapore	$12.241	12.885	+0.227	0.0
Thailand	$19.891	20.938	+0.075	0.0
South East Asia	$24.464	25.752	+0.091	0.0
US Dollar Liquidity	$9.559	10.034	—	0.0
Cater Allen Investment Management (CI)				
CA Gilt Income	£5.85	6.12xd	—	10.34
CA Equity Gwth	£4.58	4.97	-0.02	2.21
Citibank (CI) Ltd "Citifunds"				
Short term Investment Funds				
Irish £ May 6	133.9639		—	—
Equity Funds				
Japan Equity May 6	$10.0263		—	—
US Em Hits May 10	$21.2585		—	—
US Em Tech May 10	$24.1376		—	—
Chicare May 10	$32.6457		—	—
Bond Funds				
HYB (A) May 10	$93817.139		—	—
Special Assets (B) May 4	Fr11423.463		—	—
Citibank N.A.				
Libra 2000 Feb 28	$99.62		—	—
Libra 2000 Intl Feb 28	$99.62		—	—
Coutts & Co (Jersey) Fund Managers Ltd				
Coutts Money Market Fund Ltd				
Dollar Class	$38.5105		—	2.08
Sterling Class	£27.5445		—	5.08
D-Mark Class	DM56.1403		—	6.82
Japanese Yen Class	Y8038.2625		—	2.08

CMI Asset Management (Luxembourg) SA

203 route d'Arlon, L-1150 Lux 010 352 458925

Commercial Union Luxembourg SA (u)

41 Ave de la Gare L-1611 010 352 402620261

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar holds on to gains

THE DOLLAR held onto recent gains against European currencies yesterday, while the pound staged a respectable recovery from its post-local election lows, *writes Emma Tucker.*

In a generally quiet day's trading, the dollar was firm against the D-Mark at around $1.61 with traders still heartened by the currency's valiant performance last week in the face of poor employment data.

Nonetheless, the market remains wary of the dollar with a number of analysts saying they expect the latest rally to peter out at about DM1.62 unless there is some very positive US economic data soon.

The pound's modest 2 pfennig recovery was fuelled by overseas buyers, suggesting that foreign investors were not too bothered by the Conservative party's spectacular defeat in the county council elections and Newbury by-election.

Sterling slipped to around DM2.46 on Monday as domestic investors took fright, but climbed back by the London close to DM2.48 yesterday, still below last month's highs but not by much.

News that UK housing starts rose strongly in the first quarter made little impact on the currency.

The pound closed against the dollar just under a cent stronger at $1.5420.

The Bank of Spain dipped in and out of the market buying pesetas for D-Marks as the Spanish currency continued to come under selling pressure.

"The fundamental problem with the peseta is that the Spanish economy is very weak and the currency is perceived as being over valued," said Mr Mark Austin, of Midland Global Markets.

Mr Austin said the Spanish authorities were aiming to avoid a devaluation of the currency before the general election next month. Before then, however, the government will have to defend what are expected to be a very poor set of first quarter employment statistics - showing an unemployment rate of over 20 per cent - while maintaining interest rates of 15¼ per cent.

The Danish krone was also under some pressure yesterday ahead of Tuesday's referendum on Maastricht. Although the opinion polls are pointing to a majority "Yes" vote, dealers said that investors were not heavily exposed on the krone.

"The most likely thing is that there will be a yes vote, but people aren't taking any risks," said one.

In France the franc showed little reaction to the 1993 mini-budget. Nor did details of a bill making the Bank of France independent have any impact on the currency. Dealers said the budget confirmed rumours of tax and spending increases and contained no real surprises.

Mr Edmond Alphandéry, the economy minister, said French interest rates could fall below Germany's given economic fundamentals. "As our fundamentals appear better than Germany's, nothing – and the Bundesbank chairman has said this – prevents French rates falling under theirs," he said.

£ IN NEW YORK

May 11	Latest	Previous Close
£ Spot	1.5410-1.5420	1.5320 1.5330
1 month	0.38-0.37pm	0.35 0.34pm
3 months	1.07-1.05pm	1.09 1.07pm
12 months	3.88-3.80pm	3.98 3.88pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May 11	Previous
8.30 am	80.1	80.3
9.00 am	80.2	80.3
10.00 am	80.2	80.2
11.00 am	80.2	80.0
Noon	80.2	80.0
1.00 pm	80.2	80.1
2.00 pm	80.2	79.9
3.00 pm	80.2	80.1
4.00 pm	80.4	79.9

CURRENCY RATES

May 11	Bank § rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.915383	0.785309
US Dollar	3.00	1.41808	1.21336
Canadian $	5.29	[illegible]	[illegible]
Austrian Sch	5.75	15.8612	13.7941
Belgian Franc	6.75	46.2968	40.2184
Danish Krone	9.25	8.62432	7.53593
D-Mark	7.25	2.25929	1.95508
Dutch Guilder	6.75	2.53411	2.19382
French Franc	10	7.60699	6.59176
Italian Lira	11.00	2070.58	1806.28
Japanese Yen	2.50	158.414	135.386
Norway Krone	-	9.61481	8.36363
Spanish Peseta	-	168.518	143.563
Swedish Krona	11.50	10.3543	9.01302
Swiss Franc	5.00	2.03707	1.77238
Greek Drach	19	N/A	265.225
Irish Punt	-	N/A	0.804371

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland.
† European Commission Calculations.
* All SDR rates are for May 10

CURRENCY MOVEMENTS

May 11	Bank of England Index	Morgan Guaranty Changes %
Sterling	80.4	-30.12
U.S. Dollar	64.2	-13.70
Canadian Dollar	94.0	-7.44
Austrian Schilling	114.3	+15.21
Belgian Franc	115.0	+7.51
Danish Krone	117.4	+11.31
D-Mark	124.1	+31.21
Swiss Franc	119.8	+19.32
Dutch Guilder	119.3	+20.81
French Franc	109.9	-5.65
Lira	81.5	-33.13
Yen	169.7	+106.38
Peseta	95.7	-25.90

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100). *Rates are for May 10

OTHER CURRENCIES

May 11	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
Hong Kong	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Korea(Sth)	1217.00 - 1236.55	788.40 - 802.60
Kuwait	0.45350 - 0.46450	0.30180 - 0.30150
Luxembourg	50.95 - 51.05	33.05 - 33.15
Malaysia	[illegible]	2.5650 - 2.5700
Mexico	4.8265 - 4.8295	3.1320 - 3.1340
N.Zealand	2.8415 - 2.8455	1.8440 - 1.8465
Saudi Ar	5.7840 - 5.7780	3.7490 - 3.7505
Singapore	2.4940 - 2.4960	1.6150 - 1.6160
S.Af (Cm)	4.8990 - 4.9010	3.1825 - 3.1845
S.Af (Fn)	7.1116 - 7.1270	4.6150 - 4.6250
Taiwan	[illegible]	25.85 - 25.95
U.A.E.	5.6640 - 5.6675	3.6715 - 3.6735

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 11	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Irish Punt	0.809996	0.804371	-0.69	1.86	37
Dutch Guilder	2.20045	2.19382	-0.21	1.47	22
Belgian Franc	40.2802	40.2154	-0.16	1.31	15
D-Mark	1.95294	1.95508	0.11	1.04	2
Portuguese Escudo	180.624	181.608	0.54	0.60	-5
French Franc	6.54988	6.59176	0.64	0.51	-19
Spanish Peseta	142.150	143.563	0.99	0.15	-17
Danish Krone	7.44934	7.53503	1.15	0.00	-46

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

May 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5305 - 1.5450	1.5415 - 1.5425	0.38-0.37cpm	2.98	1.10-1.07pm	2.81
Canada	1.9456 - 1.9675	[illegible]	0.23-0.14cpm	1.19	0.45-0.35pm	0.85
Netherlands	2.7650 - 2.7875	2.7775 - 2.7875	¼-½cdis	-1.62	¾-1dis	[illegible]
Belgium	50.50 - 51.05	50.95 - 51.05	4-9cdis	-1.53	13-19dis	-1.25
Denmark	9.5130 - 9.5740	9.5600 - 9.5700	4⅞-7⅜oredis	-7.68	10⅞-14¼dis	-4.25
Ireland	1.0085 - 1.0250	[illegible]	0.19-0.22cdis	-2.41	0.52-0.56dis	-2.12
Germany	[illegible]	[illegible]	⅜-½pfdis	-2.12	⅞-1⅛dis	-1.61
Portugal	[illegible]	[illegible]	245-260cdis	-13.17	635-652dis	-11.17
Spain	[illegible]	[illegible]	185-203cdis	-12.77	421-464dis	-9.73
Italy	[illegible]	[illegible]	9-11liredis	-6.22	25-29dis	-4.79
Norway	10.4250 - 10.5000	10.4775 - 10.4875	⅞-2⅜oredis	-2.00	2⅞-4⅞dis	-1.45
France	8.2980 - 8.3815	8.3675 - 8.3775	1⅜-1⅞cdis	-2.33	3⅞-4¼dis	[illegible]
Sweden	11.3370 - 11.4625	11.4525 - 11.4625	2⅞-4¼oredis	-3.73	7⅞-9½dis	-2.99
Japan	170.70 - 172.10	171.00 - 172.00	½-¾ypm	3.06	1¼-1⅛pm	2.77
Austria	17.34 - 17.48	17.42 - 17.45	2⅛-3¼grodis	-1.85	4½-6½dis	-1.26
Switzerland	2.2385 - 2.2580	[illegible]	¼-parcpm	0.67	⅝-⅜pm	0.88
Ecu	1.2635 - 1.2715	1.2690 - 1.2700	0.24-0.28cdis	-2.50	0.44-0.49dis	-1.47

Commercial rates taken towards the end of London trading. Six-month forward dollar 2.12-2.08pm. 12 Month 3.90-3.80pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

May 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5285 - 1.5450	1.5415 - 1.5425	0.38-0.37cpm	2.98	1.10-1.07pm	2.81
Ireland†	1.5050 - 1.5150	1.5100 - 1.5110	0.70-0.67cpm	5.44	1.90-1.85pm	4.97
Canada	1.2710 - 1.2765	1.2745 - 1.2755	0.18-0.21cdis	-1.84	0.60-0.65dis	-1.98
Netherlands	[illegible]	1.8045 - 1.8055	0.68-0.71cdis	[illegible]	1.81-1.87dis	-4.08
Belgium	[illegible]	[illegible]	12.00-14.00cdis	-4.71	[illegible]	-4.11
Denmark	[illegible]	[illegible]	4.25-6.75oredis	-10.64	10.50-14.00dis	-7.90
Germany	[illegible]	1.6080 - 1.6090	0.65-0.66pfdis	-4.89	1.78-1.79dis	-4.40
Portugal	[illegible]	[illegible]	200-210cdis	-16.44	370-390dis	-10.16
Spain	117.75 - 118.45	118.05 - 118.15	145-183cdis	-16.09	360-375dis	-12.46
Italy	1479.00 - 1494.00	1490.25 - 1490.75	10.10-10.90liredis	-8.46	[illegible]	-7.81
Norway	6.7865 - 6.8165	[illegible]	2.60-3.30oredis	-5.12	6.65-7.85dis	-4.33
France	[illegible]	[illegible]	2.30-2.45cdis	-5.26	6.17-6.37dis	-4.63
Sweden	7.3845 - 7.4410	[illegible]	3.80-4.50oredis	[illegible]	10.10-11.30dis	-5.78
Japan	111.00 - 111.80	111.10 - 111.20	0.01-0.02ydis	-0.16	0.01-0.02dis	-0.05
Austria	11.2900 - 11.3500	[illegible]	4.20-4.50grodis	-4.61	11.25-12.05dis	-4.11
Switzerland	1.4510 - 1.4680	[illegible]	0.28-0.29cdis	-2.28	0.70-0.74dis	-1.97
Ecu†	1.2105 - 1.2175	1.2140 - 1.2150	0.36-0.35cpm	3.46	1.51-1.49pm	4.94

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

May 11	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	5¾ - 5½	6⅛ - 5¾	6⅛ - 6⅛	6 - 5⅞	6 - 6⅛	6⅛ - 6
US Dollar	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅛ - 3⅛	3¼ - 3⅛	3¾ - 3⅝
Can. Dollar	4⅝ - 4½	4⅝ - 4½	4⅝ - 4⅝	5⅛ - 4⅞	5⅜ - 5¼	5⅝ - 5⅝
Dutch Guilder	7⅝ - 7½	7½ - 7⅜	7⅜ - 7¼	7⅛ - 7⅛	6⅞ - 6¾	6⅝ - 6½
Swiss Franc	5⅛ - 4⅝	5⅛ - 4⅝	5⅛ - 5	5 - 4⅞	4⅝ - 4⅝	4⅝ - 4⅝
D-Mark	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7⅝	7⅜ - 7⅛	7⅛ - 7⅛	6⅝ - 6⅝
French Franc	8⅛ - 8⅛	8⅛ - 8	8⅛ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅛	7⅞ - 6⅞
Italian Lira	12½ - 10½	11⅛ - 10⅛	11 - 10⅞	10⅞ - 10½	10⅞ - 10½	10⅝ - 10⅝
Belgian Franc	7⅝ - 7½	7⅞ - 7⅛	7⅞ - 7⅛	7⅜ - 7⅛	7⅛ - 7	6⅞ - 6⅝
Yen	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 4⅛-4 per cent; three years 4⅝-4½ per cent; four years 5⅛-5 per cent; five years 5⅜-5¼ per cent nominal. Short term rates are call for US Dollars and Japanese Yen, others, two days' notice.

EXCHANGE CROSS RATES

May 11	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	Pta	Ecu
£	1	1.542	2.480	171.5	[illegible]	2.250	2.7[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	0.649	1	1.608	111.2	5.423	1.459	1.8[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.403	0.622	1	69.16	3.372	0.907	1.1[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	5.831	8.991	14.46	1000.	48.76	13.12	16.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	1.196	1.844	2.965	205.1	10.	2.690	3.3[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.444	0.685	1.102	76.22	3.717	1	1.2[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	0.359	0.554	0.891	61.62	3.005	0.808	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.435	0.671	1.079	74.63	3.639	0.979	1.2[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C $	0.508	0.784	1.261	87.19	4.252	1.144	1.4[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr.	1.961	3.024	4.863	336.3	16.40	4.412	5.4[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pta	0.550	0.848	1.363	94.28	4.598	1.237	1.5[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu	0.787	1.214	1.953	135.0	6.586	1.771	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE EURODMARK OPTIONS; LONDON (LIFFE): 9% NOTIONAL BRITISH GILT, US TREASURY BONDS, 6% NOTIONAL GERMAN GOVT. BOND, 6% NOTIONAL MEDIUM TERM GERMAN GOVT. BOND, 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND, 12% NOTIONAL ITALIAN GOVT. BOND (BTP), 10% NOTIONAL SPANISH GOVT. BOND (BONOS), THREE MONTH STERLING, THREE MONTH EURODOLLAR, THREE MONTH EUROMARK, THREE MONTH ECU, THREE MONTH EURO SWISS FRANC, THREE MONTH EUROLIRA INT. RATE, FT-SE 100 INDEX; LIFFE BUND FUTURES OPTIONS; LIFFE EURO SWISS FRANC OPTIONS; LIFFE ECU/BTP OPTIONS; LIFFE SHORT STERLING OPTIONS; CHICAGO: U.S. TREASURY BONDS (CBT), U.S. TREASURY BILLS (IMM), BRITISH POUND (IMM), SWISS FRANC (IMM), JAPANESE YEN (IMM), DEUTSCHE MARK (IMM), THREE-MONTH EURODOLLAR (IMM), STANDARD & POORS 500 INDEX; PHILADELPHIA SE £/$ OPTIONS; PARIS: 7 to 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES, THREE-MONTH PIBOR FUTURES (MATIF), CAC-40 FUTURES (MATIF), ECU BOND (MATIF); POUND - DOLLAR

[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls June	Calls September	Calls December	Puts June	Puts September	Puts December
116	1.07	-	-	0.12	0.76	1.37
117	0.36	0.96	-	0.40	1.22	-
118	0.10	0.56	-	1.12	-	-
119	-	0.30	1.67	-	[illegible]	-
120	-	0.14	-	-	-	-
Open Int	149,656	102,760	22,023	188,598	86,374	12,036

Estimated volume 24,215 † Total Open Interest 563,544
† All Yield & Open interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	Unibank plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	●United Bk of Kuwait	6
Barclays Bank	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Western Trust	6
●Brown Shipley	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
CL Bank Nederland	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
Citibank NA	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Money easy in quiet day

A quiet day on the UK money markets saw overnight money drift down to 4 per cent, and interbank rates slightly firmer.

Dealers said there was little reaction to reports that the government's back benchers were pushing for a cabinet reshuffle following the Conservative Party's disastrous performance in local elections last week. There was also considerable scepticism that the chancellor would be repiced.

"Many of us wonder what the point of replacing him would be," said one dealer. "Things are a mess, but most of the mess was created so long ago that it is not really relevant to the present situation."

UK clearing bank base lending rate 6 per cent from 26, January 1993

A statement from the prime minister that he had "not even begun" to contemplate any changes to his cabinet, made little difference to sentiment.

With dealers not yet convinced about the strength of economic recovery, many expect the government to cut base rates again at some stage over the summer. They are not, however, pushing their case particularly strongly and the three month interbank rate - a good guide to where the market thinks base rates will be in three months - remained fairly steady at about 6 per cent.

One dealer commented that speculation of an early rate cut to boost the government's standing was premature.

The Bank of England forecast a liquidity shortage of £1bn in the morning which was partially relieved in the early round after the Bank provided liquidity of £702m. The shortage was later revised to £1.4bn. Further operations, in which the Bank purchased £700m of bills, removed the shortage in the afternoon. There was no late assistance.

Overnight rates started the day at about 5⅛ per cent, dropping later to 5¼ per cent and ending at about 4 per cent. Further out, three month money rates were slightly firmer at 6 per cent on the offered side and 5⅞ per cent on the bid side.

The June sterling futures contract hit a high of 94.06, ending the day slightly lower at 94.05. Although the September contract dipped to a low of 94.10 it firmed over the day to end two basis points higher at 94.16.

● German call money was unchanged from the previous day's levels of 7.75 per cent in quiet trade, with the market expecting another small cut in the Bundesbank's securities repurchase rates this week.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 11) 3 months US dollars: bid 3¼, offer 3⅜ — 6 months US Dollars: bid 3⅜, offer 3½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

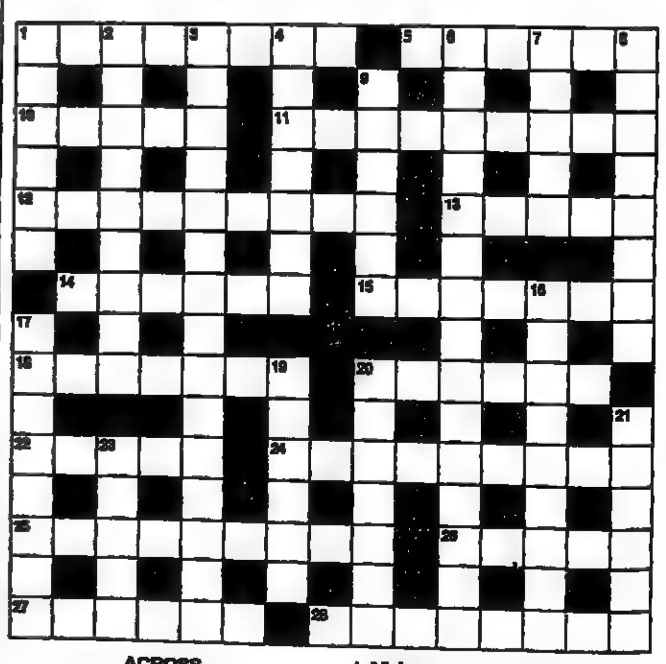
Money Market Trust Funds

Money Market Bank Accounts

[illegible]

CROSSWORD

No.8,148 Set by HIGHLANDER



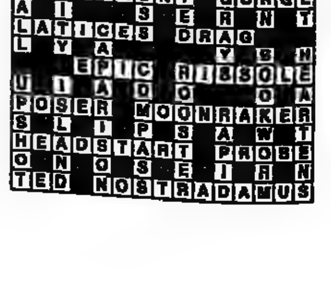
ACROSS

1 Come across extra flat, round plate in front (8)
5 Unfolded Sunday papers, initially to look at distribution (6)
10 Half hope to profit from family residence (5)
11 Science experiment on unfinished shift (9)
12 Man from the north uses diamond lead to win the queen (9)
13 Finding man to work on roof backfired again (5)
14 Connections to cells done as arranged (6)
15 Difficult problem to face without a girl (7)
18 Fruit on bush went up with it (7)
20 Excellent line in elaborate and showy clothing (6)
22 Clever way to hide damage (5)
24 Record has a beat expressed with mathematical power (9)
25 Listed badly trapping him inside – so pull apart (9)
26 Look after sister in hospital (5)
27 Double clanger (6)
28 Old coach always included cheap accommodation on board (8)

DOWN

1 Had raised trouble over flower (6)
2 Group of wines therefore goes off, so to speak (9)
3 Organise the cops and use an easily solved crime (4,3,4,4)
4 Makes cryptic note second to be rewritten (7)
6 Aim harmless cartridge to run minimal distance to target (5-5,5)
7 Pay tribute to former and to latest leader (5)
8 Ready-to-order water barrier outside castle in Spain (8)
9 Walked over again adding last of payload to rocket (6)
16 Overturned intention to include Speaker in agreed suspensions (9)
17 Vineyards need helper, having lost one dedicated campaigner (8)
19 Took meals on china, revealing taste (6)
20 Fruit intended to have no core – a fantastic idea (7)
21 Get in the way of some dim pedestrian (6)
23 Fire-raising preacher guillotined (5)

Solution to Puzzle No.8,147



WORLD STOCK MARKETS

AUSTRIA

FRANCE

GERMANY

NETHERLANDS

SWITZERLAND

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

ITALY

NORWAY

SPAIN

SWEDEN

SOUTH AFRICA

JAPAN

AUSTRALIA

HONG KONG

SINGAPORE

MALAYSIA

CANADA

TORONTO

4 pm close May 11

MONTREAL

4 pm close May 11

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

TORONTO

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♦ Subject to official recalculation.

WORLD						
M.S. Capital Intl.(1/1/70) $	559.2*	561.8	563.1	562.4	565.30 (5/5)	486.60 (13/1)
Euro Top-100 (26/6/90)	956.66	955.98	954.50	957.97	988.47 (22/4)	862.73 (13/1)

**Saturday May 8: Taiwan Weighted Price 4,678.14, Korea Comp Ex. 708.16.
♦ Subject to official recalculation. †-Correction. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: Austria Traded, 683.20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 20 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Tuesday, May 11, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Mt Mn	15.1m	505	+27	NEC Corp	6.6m	1,020	-10
Japan St Wks	13.8m	525		Shimizu Corp	6.1m	750	+40
Mitsubishi Hvy	11.3m	725	-19	Minebea	5.8m	667	+18
Nippon Steel	10.5m	409	-5	M'bishi Rayon	5.4m	451	+21
Shionogi	8.0m	1,040	+70	Dainippon Ink	5.0m	537	+16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

3:45 pm May 11

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
13½	11½	AAR Corp x	0.48	3.6	24	570	u13⅝	12¾	13⅜	+¼
27¼	20	A L Labs A	0.12	0.7	41	1521	25¾	24⅞	25¾	+1½
63½	54⅜	AMP Inc	1.60	2.6	22	1643	62⅞	62¼	62⅜	-½
71⅝	55½	AMR			10	5002	67⅞	67⅛	67¼	-⅝
2¼	1¾	ARX			12	468	2⅛	2	2	
46⅞	29⅞	ASA	2.00	4.3	31	749	u47	46½	46⅞	
30¾	22⅝	Abbott Lab	0.68	2.5	17	12090	27⅝	27¼	27½	
12⅝	10¼	Abitibi Pr	0.50	4.1	5	11	12⅜	12¼	12¼	-¼
11¾	10¾	ACM Gvt In x	0.95	8.3		68	11⅝	11½	11⅝	+⅛
9⅝	9⅛	ACM GvOpp x	0.79	8.3		87	9⅝	9½	9½	-⅛
9⅝	8¾	ACM Gvt Sp	0.79	8.2		265	9½	9⅜	9½	+⅛
11⅞	10½	ACM Gvt Se	0.95	8.5		561	11¼	11⅛	11¼	+⅛
11	9⅝	ACM Man x	1.08	9.9		364	u11	10⅞	10⅞	
9¾	8⅝	ACM Mgd x	0.72	7.9		374	9⅛	9	9⅛	
9⅞	7¼	Acme Cleve	0.40	4.3	12	520	9½	9⅛	9¼	-¼
9¼	6½	Acme Elect			787	182	8	7¾	7⅞	-⅛
16	12	Acuson			14	2928	12¾	12¼	12⅜	+⅝
22¼	19⅝	Adams Expr x	0.49	2.3	1	134	21	20¾	20⅞	+.49
66	45½	Ad Micro	3.00	4.9		67	60⅞	59½	60⅝	-⅛
32¼	17⅝	Ad Micro P	3.00	10.3	12	6139	29¾	29	29⅛	-⅜
7¾	5½	Advest Grp	0.16	2.5	10	18	6½	6⅜	6⅜	
49¾	41⅛	Aegon ADR	2.95	6.5	8	53	45¾	45½	45⅝	-⅛
53¾	43⅞	Aetna Lf	2.76	5.1	102	1552	u54⅛	53¾	54⅛	+⅝
14½	11½	Affil A x	0.26	2.1	28	213	12¼	12¼	12¼	+⅛
40¼	33	Aflac x	0.50	1.3	17	1494	39⅛	38⅞	38½	-⅛
22⅛	16⅞	Ahmanson x	0.88	4.8	15	3571	18¼	17⅝	18¼	+⅝
7¾	4⅝	Aileen Inc			18	188	5¼	5⅛	5¼	+¼
48½	40⅞	Air Pr Chm	0.86	2.0	17	1528	43⅛	42⅞	43⅛	+¼
24¼	18⅛	Airbrne Frt x	0.30	1.4	86	178	21¾	21¼	21⅝	-⅛
26½	18¼	Airgas Inc			35	265	25¾	24⅞	25¼	+½
14⅞	10½	Airlease	1.60	11.5	11	118	14½	13⅞	13⅞	-⅛
105	101	AlaPw8.16	8.16	8.0		5	104	104	102½	

Continued on next page

3.45 pm May 11

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22	15½	S Anita Rt	1.36	7.6	19	202	18½	17⅞	17⅞	-½
20¼	17	SCOR US Cp	0.32	1.7	46	33	18⅞	18½	18½	-⅛
28¼	20	SPS Techno	1.28	4.6	19	55	28⅝	28⅜	28½	+⅛
14½	12⅞	Sabine Rt	2.09	14.7	10	22	14¼	14¼	14¼	-⅛
13⅛	8⅞	Safecard	0.10	0.8	15	712	12⅞	12⅛	12¼	
23½	17	Safeg'd Sc			9	5	18¾	18½	18¾	+⅛
24¾	16¼	SafetyKln	0.36	2.1	23	636	17¼	17	17⅛	+⅛
15¾	10⅞	Safeway			25	5780	15⅝	15⅜	15½	
3⅜	2	SafewayW96				42	3¼	3¼	3¼	+⅛
44½	37½	StJoePaper	0.20	0.5	92	25	39	38⅞	39	
37⅝	31	StJoeLSP x	1.76	4.8	16	4	36⅝	36⅝	36⅝	+⅛
83¼	75	St Paul's	2.80	3.4	12	1655	82⅞	81½	82¼	+⅝
9⅝	7⅜	Salant Crp			4	36	8¾	8⅝	8½	-¼
75⅛	42½	Sallie Mae	1.20	2.4	11	8209	49⅞	48½	49⅛	-⅝
19⅞	13	Salomon Br x	0.36	2.7		582	13½	13⅜	13½	
41⅞	34⅞	SalomonInc	0.64	1.7	19	1650	38⅞	38⅛	38⅞	+½
28⅞	23¼	SanDgo G&E	1.48	5.6	14	452	26¼	25⅞	26¼	+⅛
4⅞	3½	SantaFeEDu	0.40	10.3	43	65	4	3⅞	3⅞	+⅛
11⅞	9⅛	SantaFeERs	0.16	1.5	187	479	11⅛	10⅞	10⅞	-⅛
40¼	35¾	SantaFePac	2.80	7.4	13	93	38½	37½	37¾	-¾
16⅜	12¼	SantaFeSth	0.10	0.6	18	10171	u16⅝	16⅛	16⅝	+⅜
31⅛	23⅞	Sara Lee	0.56	2.3	19	6313	25¾	25¼	25⅝	+¼
47	40⅛	Scana Corp	2.74	5.9	15	254	46⅞	46⅝	46¾	-⅛
49⅝	43	Scecorp	2.80	5.8	14	1987	48⅞	47⅞	48	-⅞
38⅞	23⅞	SchererRP			26	66	29¼	28¾	28¾	-¼
68½	61¾	SchergPl x	1.88	2.7	17	5186	68⅜	64¾	68¾	+½
66	55⅛	Sch'berger	1.20	1.9	23	4904	64⅛	62⅞	63½	+⅜
39	24⅞	Schwab(C) x	0.30	0.9	14	1625	33⅛	32¼	32⅝	-⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

AMEX COMPOSITE PRICES

3.45 pm May 11

[illegible]

NASDAQ NATIONAL MARKET

3.45 pm May 11

[illegible]

AMERICA

Dow drifts in narrow range at midsession

Wall Street

US share prices drifted in narrow trading ranges either side of opening values as the stock markets struggled to find a new direction, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones industrial average was up 5.54 at 3,448.82. The more broadly based Standard & Poor's 500 was unchanged at 442.80, while the Amex composite was down 0.55 at 426.14, and the Nasdaq composite down 0.85 at 681.97. Trading volume on the NYSE was 127m shares by 1 pm, while rises and declines ran neck and neck at 872 to 877, respectively.

Once again the absence of fresh economic news, or a lead from either overseas equity markets, or from a becalmed US bond market, left investors searching for inspiration yesterday. Although prices rose sharply on Monday morning, the buying was mostly technical in nature, and by the end of the day the Dow had registered a gain of only 6 points.

This means that the markets' main index has barely moved for the last five trading days – a clear reflection of investors' uncertainty about the outlook for the economy, for corporate earnings and stock prices.

The next piece of news likely to move the markets will come today in the form of the April producer prices index, which is expected to post a gain of about 0.2 per cent in the wake of higher food prices. Both bond and stock markets have become jittery about inflation lately, so if the PPI number comes in well above forecasts, stock prices could face a substantial short-term correction.

Among individual stocks, Anheuser Busch, the largest brewer in the US, climbed $1¾ to $51¼ in busy trading on reports that beer may be exempted from President Bill Clinton's proposed "sin" taxes, which are likely to be levied on cigarette and liquor sales.

Philip Morris, owner of the company which makes Miller Beer, the main domestic competitor to Anheuser Busch's Budweiser brands, failed to receive a lift from the news. Its shares fell $1¼ to $51¾, primarily because of profit-taking in the wake of recent gains by the stock.

Bank stocks were in favour as a group, posting modest gains across the board. Citicorp added $¾ at $38¾. Chemical firmed $¾ to $39, Chase Manhattan rose $¾ to $30¾ and BankAmerica put on $¼ at $46¾.

On the Nasdaq market, technology stocks ran into sellers. Intel fell $2¼ to $100¼ in volume of 2.5m shares after broking house Kidder Peabody lowered its investment rating on the stock from "buy" to "accumulate". Others in the sector were also weaker, with Apple down $¾ at $54¼, Novell $¾ lower at $29¾ and Microsoft $1¾ off at $87½.

Canada

TORONTO remained under pressure at midday as losses in banking and base metal shares offset gains in gold miners.

The TSE-300 index fell 7.73 to 3,770.80 in turnover of C$328m. Declines led advances 310 to 308 with 255 issues unchanged.

Banking shares, pinched by a rise in long-term Canadian bond yields, slipped sharply. The Royal Bank of Canada lost C$¾ to C$28¾ in more than 167,000 shares.

EUROPE

Paris off 1.2 per cent following budget

THERE was widespread disappointment in France to the government's budget proposals, detailed after the market closed on Monday, *writes Our Markets Staff.*

As Mr Andrew Shepherd-Barron, analyst at Kleinwort Benson in London, commented, many of the plans had been in the market last week and factored into prices, leading to the market's underperformance over that period.

James Capel suggested that "this budget is going to send France deeper into recession in the short-term and provides little direct assistance to equities which will have to rely on further rate cuts if it is to move upwards."

Morgan Stanley, taking up this theme, noted that high and growing unemployment "demands much lower real interest rates which the French, in defending the *franc fort*, have been unable to deliver. German monetary policy is therefore the key to the alleviation of this social tension".

PARIS shed 1.2 per cent in reaction to the budget which did not provide the hoped for stimulus to encourage equity investment by small investors. The CAC-40 index closed off 22.69 at 1,854.52 in turnover of some FFr3bn.

Further evidence of disappointing first quarter sales came from Alcatel Alsthom and the shares eased FFr13 to FFr627. Eurotunnel closed off FFr1.70 or nearly 5 per cent at FFr33.30 as the opening of the rail link receded further.

FRANKFURT firmed on technical trading as dealers bought back shares after the index failed to fall through the 1,600 level on Monday. The DAX index rose 7.12 to 1,616.15 in turnover of DM6.6bn.

Volkswagen plunged DM6.60 to DM320.50 on further pessimism over the company's future performance.

Veba, the utilities concern, rose DM5.30 to DM384 after a statement that the company expected satisfactory results in spite of the weakening economy.

ZURICH drew strength from the firmer dollar and D-mark, which help export earners, and the SMI index rose 13.5 to 2,192.6, near to its all-time high.

The market is seeing a return of foreign demand as well as funds being switched from interest-bearing investment into stocks.

Mr S J Marshall Lockyer of Kleinwort Benson in London attributes the market's current strength to a return of investorsentiment towards pharmaceutical stocks. This followed the perception that Mrs Hillary Clinton's exploration of US healthcare reform was becoming more sympathetic to the pharmaceutical sector.

Roche certificates which have been recent strong performers, added SFr20 in early trade before late profit-taking left them SFr10 easier at SFr4510.

Insurers were back in demand: registered shares in Zurich Insurance rose SFr40 to SFr2,900 ahead of today's press conference at which a breakdown of 1992 figures will be presented.

MILAN edged lower, with trading held back by today's expiry of monthly options contracts and Friday's end of the monthly account. The Comit index shed 1.0 to 531.62 in turnover well down from recent levels at an estimated L250bn.

Fondiaria, the insurer, was an exception, rallying L1,437 or 4.7 per cent to L31,582 on speculation, confirmed late in the day, that it had finally sold its 20 per cent stake in AMB, its German partner.

AMSTERDAM saw a strong performance from Elsevier, up Fl 1.80 at Fl 130.70, after the group announced further acquisitions in both Europe and the US.

The CBS Tendency index lost 0.1 to 108.7.

BRUSSELS edged up amid low volume, with activity led by trading in Delhaize which surged surged BFr38, or 3.3 per cent, to BFr1,196 on shortcovering by foreign investors and speculative buying by dealers. The Bel-20 index added 3.22 to 1,190.78 in turnover of BFr1.25bn.

MADRID reversed recent weakness with a gain in the general index of 1.82 to 242.21 helped by strength in the banking and construction sectors. Turnover was high at Pta18bn, compared with an average Pta11bn last week.

DUBLIN built on Monday's 1½ per cent rise with a gain in the ISEQ index of 10.82 to 1,522.93, as some confidence returned following the completion of the Greencore placing.

There was strength in financials with Irish Life and AIB both gaining 2 per cent while Fyffes rose 5.5 per cent on news of a joint venture with a Canary Island's group.

OSLO advanced on a stronger dollar and lower money market rates. The All Share index rose 6.53 to 476.45 in turnover of NKr484m. Norsk Hydro rose NKr3 to NKr174.5. The strength in the dollar helped the shipping sector up 9 to 456.14, with Kvaerner up NKr4 to NKr196.

FT-SE Actuaries Share Indices THE EUROPEAN SERIES

May 11 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1141.38	1141.29	1140.93	1141.97	1142.42	1141.60	1139.87	1140.44
FT-SE Eurotrack 200	1205.57	1205.90	1206.78	1205.21	1206.45	1206.30	1205.43	1206.03

	May 10	May 7	May 6	May 5	May 4
FT-SE Eurotrack 100	1142.74	1142.41	1152.03	1153.13	1148.16
FT-SE Eurotrack 200	1203.54	1200.34	1205.10	1206.61	1207.82

Base value 1000 (26/10/90) High/day: 100 - 1142.82 200 - 1206.50 Low/day: 100 - 1139.45 200 - 1204.19

ASIA PACIFIC

Land sale agreement supports Hong Kong

Tokyo

THE yen's depreciation against the dollar failed to maintain Japanese share prices at Monday's higher levels as arbitrage-related buying lost momentum and dealers took profits in late trading, *writes Wayne Aponte in Tokyo.*

The Nikkei average ended 114.34 easier at 20,940.37, after a day's range of 20,932.34 and 21,224.78. The Topix index of all first section stocks lost 3.22 at 1,635.83, but in London the ISE/Nikkei 50 index edged up 1.93 to 1,272.12.

Volume on the first section of the Tokyo Stock Exchange was estimated at 700m shares, compared with a final 549m during the previous session. Rises still showed a lead over declines at the close by 667 to 418, with 114 issues unchanged.

Investors are likely to avoid taking long positions in Tokyo before the bulk of Japanese corporate earnings reports are released later this month, brokers said.

Fears of unexpected downward company revisions, coupled with a lack of fresh incentives, have placed a ceiling on the Nikkei's advance, they added.

However, market participants expect limited downside risk because institutional investors tend to buy equities on dips and pension funds managed by the government may serve to support share prices.

An analyst at a Japanese securities brokerage said domestic life insurance companies were gradually increasing the percentage of equity holdings in their portfolios, which would improve the chances for a sustained rally once additional signs of an economic recovery surfaced.

In spite of the day's declines, the yen's downturn against the dollar prompted investors to purchase export-related issues. Sony put on Y80 at Y4,930, Pioneer Electronic Y70 at Y2,650 and TDK Y20 at Y4,000.

Profit-taking pushed carmakers lower: Nissan shed Y39 to Y780, Toyota Y20 to Y1,720 and Isuzu Y8 to Y465.

In Osaka, the OSE average finished 198.81 higher at 23,152.38 in volume of 31.6m shares.

Roundup

PACIFIC Rim markets managed a mostly firmer performance yesterday.

HONG KONG rallied as the Sino-British Land Commission agreed its land sales programme for this year. The Hang Seng index was up 107.83, or 1.6 per cent, at 6,847.06 after touching 6,872.79. Turnover came to HK$4.2bn after Monday's HK$4.0bn.

Property issues led the rise. Cheung Kong and Henderson Land rose 70 cents to HK$27.30 and HK$20.30 respectively.

AUSTRALIA received support from strength on Wall Street and demand for some banking shares.

The All Ordinaries index appreciated 15.4 to 1,637.4 as hopes of an interest rate cut encouraged investors.

Westpac jumped 14 cents to A$3.77 and ANZ advanced 13 cents to A$3.80 on overseas buying. Brambles Industries, the transport group, recouped Monday's loss which was prompted by a weak profits forecast, rebounding 46 cents to A$13.44.

SINGAPORE saw selected institutional buying which took the market index higher while overall trade remained mixed. The Straits Times Industrial index rose 22.02, or 1.24 per cent, to 1,794.04 in volume of 211.4m shares, after 217.7m in the previous session.

KUALA LUMPUR was mixed to easier on profit-taking, with falls in some leading component stocks weighing on the composite index, which finished 5.55 lower at 710.55.

BANGKOK edged higher in thin trade and the SET index gained 8.51 at 850.35 in turnover of Bt2.1bn. Among the actives, Bangkok Bank of Commerce firmed Bt1 to Bt16.00.

NEW ZEALAND rebounded from Monday's fall on short-covering and bargain hunting. The NZSE-40 index rose 8.55 to 1,565.59. Forestry stocks, which had led the recent slide, firmed, with Fletcher Challenge up 1 cent to NZ$2.57.

KARACHI was higher after the government unveiled incentives to help the textile industry, ranging from a cut in duties to more liberal financing. The 100-share price index climbed 7.13 to 1,113.95.

BMA Capital Management in Karachi notes in its latest weekly review that investor confidence has been improving amid repeated assurances by the caretaker government on holding elections on time and under army supervision.

BOMBAY gained ground on short-covering and the BSE index rose 62.37 to 2,289.31.

SOUTH AFRICA

GOLD shares came under some selling pressure in mostly slow trade which left the index down 31 at 1,430. The overall index was unchanged at 3,746 and industrials added 14 to 4,378, after Monday's declines.

Manila picks way round obstacles to new heights

Jose Galang on the recent equity market rally

The Philippine stock market appears to be taking a breather from a record-breaking frenzy since late April.

However, analysts expect the rise to resume after the market consolidates this week from an overbought position. The composite index closed yesterday at 1,642, down from a record high of 1,654 on May 5.

Excess liquidity caused by a reduction in the volume of Treasury bills auctioned by the Central Bank in early April has kindled interest in equities.

According to Mr Francisco Liboro, research head at Belson Securities, technical factors have also favoured a rise in the market. In spite of optimism over the economy since early this year, the market had been trading below the previous peak of 1,581 registered in June last year after the country's first peaceful general election in 25 years.

The past two weeks' hectic trading has also pushed turnover to an average 510m pesos ($21.2m) a day in the first week of May, almost double the usual volume.

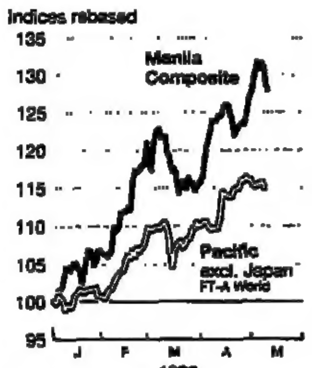
The sharp increase in turnover is giving analysts reason to believe that the market advance could be sustained for some time. However, fundamentals leave much to be desired.

The government has scaled down this year's GDP target to 3.5 per cent from 4.5 per cent because of the adverse effects of the daily power cuts in the main Luzon island, and the failure of a scheme to "pump-prime" the economy by advancing the implementation of infrastructure projects to the first half of the year.

Even that goal may be difficult to attain. Mr Jose Pardo, president of the Philippine Chamber of Commerce and Industry, says his organisation's analysis suggests a 2.5 per cent growth in GDP this year because of the power problem. But he adds that "the real growth" should come late this year when new power plants are expected to come on line.

Corporate earnings, earlier projected to grow by about 20 per cent this year, have not moved as expected.

Philippine Long Distance Telephone, for instance, yesterday reported a 19 per cent decline in first-quarter net profits because of a sharp rise in dividend payments to preferred shareholders during the period.



Source: Datastream

Optimism, however, is expected to be sustained by lower domestic interest rates and inflation. Rates on Treasury bills dropped to 11.6 per cent on average last week, compared with 15 per cent at the end of last year.

A bill now being debated in congress will establish a new Central Monetary Authority that will replace the Central Bank. Designed to be able to exercise more independence from the incumbent administrations, the new CMA is seen as being more effective in further bringing down interest rates.

Since the start of the year the composite index has gained more than 30 per cent, with such favourites as San Miguel advancing 51 per cent, Ayala 20 per cent and PLDT 15 per cent. Among recently listed issues, Manila Electric has already surged 106 per cent since the start of the year, and International Container Terminal Services (ICTSI) 75 per cent.

Analysts expect such "recession-proof" stocks as ICTSI and PLDT to continue to lead any market advance in the coming months.

PLDT should benefit from the recent drop in the peso rate against the US dollar: the peso has declined by as much as 7.5 per cent from its end-1992 level in spite of occasional central bank intervention.

At the height of last week's rally, the market was trading at a price/earnings multiple of about 13. Analysts forecast that in a period of economic recovery the market can grow to a p/e of at least 15. As such, most analysts see room for further growth among equities. Brokerage houses are already talking of a new high of 1,750 and if economic recovery gets under way the target could be 1,800 by the end of the year.

A further decline in interest rates is expected to favour corporate earnings, although a reversal of the current trend may develop in the third quarter. Coinciding with a reduction in the bank reserves required against deposits, this should lead to bigger amounts available for lending to corporations.

On the other hand, the peso decline should boost earnings of export-oriented companies, including some of the mining companies now largely ignored by investors.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MAY 10 1993								FRIDAY MAY 7 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (68)	135.46	-1.7	130.84	95.69	113.00	128.21	-0.9	3.85	137.84	129.75	96.10	113.41	129.40	144.19	117.39	148.73
Austria (18)	141.52	-1.5	136.69	99.97	118.06	117.47	-0.1	1.74	143.61	135.19	100.13	118.16	117.53	150.96	131.16	165.47
Belgium (42)	145.51	-1.2	140.54	102.78	121.38	118.78	+0.5	4.77	147.24	138.60	102.65	121.14	118.19	156.76	131.19	141.65
Canada (110)	127.04	+0.1	122.70	89.74	105.97	116.69	-0.1	2.83	126.92	119.47	88.49	104.41	116.81	127.86	111.41	127.72
Denmark (33)	220.64	-1.8	213.10	155.86	184.05	186.20	-0.2	1.22	224.72	211.53	156.68	184.88	186.59	225.64	185.11	240.02
Finland (23)	96.65	-3.8	93.35	68.28	80.63	111.16	-2.1	1.11	100.43	94.54	70.03	82.63	113.54	100.43	65.50	81.47
France (98)	156.10	-1.3	150.77	110.26	130.20	132.28	-0.1	3.39	158.23	148.95	110.32	130.17	132.36	167.36	142.72	166.02
Germany (62)	110.73	-1.6	106.95	78.23	92.36	92.36	-0.3	2.28	112.58	105.98	78.51	92.62	92.62	117.10	101.59	119.56
Hong Kong (55)	273.29	-0.8	263.96	193.05	227.98	271.22	-0.7	3.41	275.39	259.23	192.00	226.58	273.25	277.23	218.82	233.82
Ireland (15)	157.69	-1.1	152.31	111.39	131.54	147.00	+0.8	3.59	159.37	150.02	111.11	131.12	145.86	170.40	129.28	162.61
Italy (73)	68.23	-3.3	65.90	48.19	56.91	75.36	-2.0	2.61	70.58	66.44	49.21	58.07	76.91	70.58	53.78	69.22
Japan (470)	145.92	-0.2	140.94	103.08	121.74	103.08	+1.1	0.81	146.27	137.69	101.98	120.36	101.98	146.85	100.75	102.65
Malaysia (69)	323.09	+0.2	312.06	228.22	269.50	319.35	+0.3	2.11	322.41	303.49	224.78	265.25	318.49	324.36	251.66	240.63
Mexico (18)	1513.67	+0.4	1461.99	1069.24	1262.67	5180.06	-0.1	1.31	1507.12	1418.69	1050.80	1239.96	5187.28	1725.81	1410.30	1633.08
Netherland (24)	168.71	-0.6	162.95	119.18	140.74	138.64	+0.8	3.99	169.67	159.71	118.30	139.60	137.53	172.75	150.39	157.29
New Zealand (13)	46.70	-1.9	45.11	32.99	38.96	45.54	-1.4	4.82	47.62	44.82	33.20	39.18	46.20	49.32	40.56	44.35
Norway (22)	157.78	-2.6	152.39	111.45	131.62	144.96	-1.5	1.82	162.05	152.54	112.98	133.32	147.14	166.21	137.71	187.39
Singapore (38)	238.63	-0.6	230.48	168.56	199.05	177.32	-0.5	1.90	240.09	226.01	167.40	197.53	178.30	243.60	207.04	213.01
South Africa (60)	185.37	-0.7	179.04	130.94	154.63	186.78	-0.5	2.70	186.77	175.81	130.21	153.66	187.78	188.30	144.72	244.94
Spain (45)	127.11	-2.2	122.77	89.79	106.03	113.43	-0.5	5.34	129.98	122.35	90.62	106.93	114.02	132.82	115.23	155.81
Sweden (36)	175.57	-1.2	169.58	124.02	146.46	192.40	+0.1	1.75	177.74	167.31	123.93	146.24	192.21	177.74	149.70	192.92
Switzerland (56)	121.14	-1.0	117.00	85.57	101.06	109.23	+0.8	1.99	122.40	115.22	85.34	100.71	108.32	123.56	108.91	104.44
United Kingdom (218)	176.23	-1.3	170.21	124.48	146.99	170.21	+1.2	4.02	178.63	168.15	124.53	146.95	168.15	181.99	162.00	197.56
USA (519)	181.06	+0.2	174.88	127.90	151.04	181.06	+0.2	2.82	180.64	170.04	125.95	148.62	180.64	188.27	175.38	170.60
Europe (765)	144.49	-1.5	139.56	102.07	120.54	131.51	+0.5	3.38	146.63	138.03	102.24	120.64	130.92	149.02	133.92	154.00
Nordic (114)	166.50	-1.7	160.81	117.61	138.89	160.06	-0.3	1.56	169.44	159.50	118.14	139.41	160.57	169.44	142.13	180.78
Pacific Basin (713)	149.17	-0.3	144.07	105.37	124.43	108.91	+0.9	1.09	149.65	140.87	104.34	123.12	107.97	150.03	105.89	108.57
Euro-Pacific (1478)	147.14	-0.8	142.11	103.93	122.73	118.85	+0.7	2.01	148.29	139.59	103.39	122.00	118.02	148.94	117.28	126.95
North America (629)	177.69	+0.2	171.62	125.53	148.25	176.66	+0.2	2.82	177.29	166.88	123.62	145.89	176.29	182.38	171.51	167.92
Europe Ex. UK (547)	124.85	-1.5	120.59	88.21	104.17	109.79	-0.1	2.95	126.80	119.36	88.43	104.35	109.87	128.65	112.51	128.28
Pacific Ex. Japan (243)	181.55	-1.0	175.35	128.26	151.46	165.76	-0.7	3.28	183.30	172.54	127.82	150.82	166.85	184.84	152.70	166.91
World Ex. US (1666)	147.66	-0.7	142.62	104.31	123.18	120.81	+0.7	2.04	148.77	140.04	103.73	122.40	120.02	149.39	118.51	129.26
World Ex. UK (1967)	156.09	-0.3	150.76	110.26	130.22	136.31	+0.4	2.16	156.51	147.32	109.13	128.78	135.75	157.19	134.22	137.02
World Ex. So. Af. (2125)	157.79	-0.4	152.40	111.47	131.64	139.02	+0.5	2.33	158.37	149.08	110.43	130.31	138.33	158.98	137.29	141.55
World Ex. Japan (1715)	166.06	-0.4	160.39	117.32	138.55	159.27	+0.2	3.03	166.78	157.00	116.30	137.24	158.90	168.09	157.47	164.41
The World Index (2185)	157.87	-0.4	152.48	111.52	131.70	139.45	+0.5	2.34	158.46	149.16	110.48	130.38	138.76	159.07	137.32	142.23

Latest prices were unavailable for this edition.